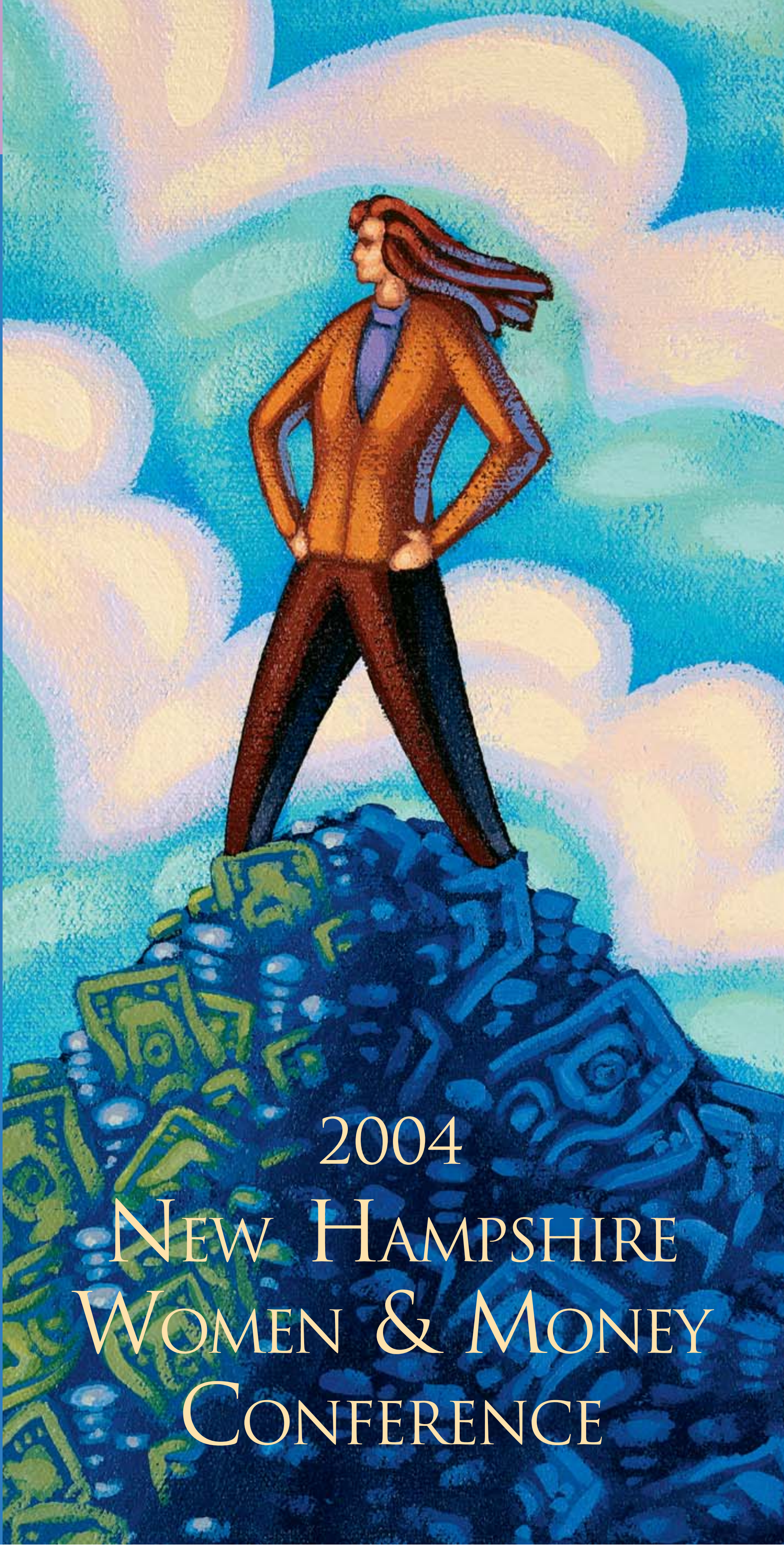
Light Your Way to Financial Confidence

A personal financial planning workbook for insightful money management

Jointly presented by the New Hampshire Commission on the Status of Women and the New Hampshire State Treasurer



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Women's Fund of New Hampshire

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Designed by
Beverly A. Joyce
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Exeter, New Hampshire

Spring 2004

Dear Women & Money Attendee:

Thank you for deciding to join us for today's Women & Money conference. We have worked hard to make sure the workshops, the volunteer workshop facilitators, the workbook you are holding, and our very special guest speaker provide you with valuable information that helps you distinguish *"myth"* from *"reality"* when it comes to managing your personal finances. We are indebted to a variety of talented individuals who have made this event possible. Most notably, Ohio Treasurer Joseph T. Deters and his staff graciously allowed us to use and exert complete editorial freedom over the comprehensive workbook developed through his leadership for similar educational seminars. In addition, we are grateful to the incredible support of Dale McCormick, Maine State Treasurer, and her staff for sharing with us their materials, ideas, and lessons learned from similar conferences.

Besides receiving this workbook, which will be a valuable resource long after the conference, we encourage you to network with other attendees, participate in the workshops, listen to our featured keynote speaker, Dee Lee, and above all, enjoy the day! We hope you will also take advantage of the breaks in today's schedule to visit the Conference Expo featuring exhibit booths from conference supporters and other community organizations that can help *Light Your Way to Financial Confidence*. Without their generous support, we simply could not offer this conference free of charge.

Finally, please give us your honest assessment of your 2004 Women & Money experience—both today and in the months ahead. Feel free to e-mail your comments to us at either treasury@treasury.state.nh.us or cmswweb@nh.gov. With your enthusiastic participation, support, and feedback we hope to provide additional financial education opportunities and materials in the future if possible. For friends and family unable to attend today's conference, please let them know they can download the workbook, free of charge, at www.nh.gov/treasury.

We truly hope your experience today will make a positive difference in your life.

Respectfully,

Theresa de Langis
Executive Director, Commission on the Status of Women

Michael A. Ablowich
State Treasurer

Acknowledgments

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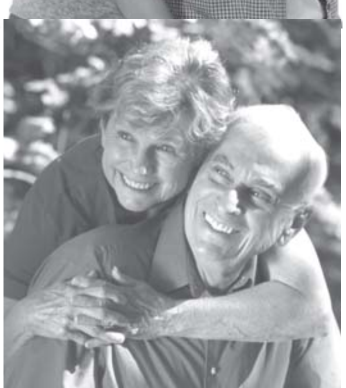

Introduction

We all have hopes, dreams and fears when it comes to our financial decisions. Because of the fears, we often don't think we can realize our hopes and dreams. Today that can change! You will learn how you can take three easy steps to a secure financial future. With some good information and three action steps, you will see that your hopes, dreams and financial security are possible.

Step 1 — Assess

First, you should assess your current financial situation. Recognizing where you are today is essential to moving forward toward accomplishment of your goals. How is this done? Well, it takes time and patience. The good news is this workbook is designed to make the process a little easier. The worksheets are provided for you to assess where you are now, see what adjustments you can make, and who may be involved in these important decisions. This also will be the time to ***plan*** for those obstacles that may happen. It is hard to second-guess fate, but if you have all of your ***ducks in a row*** when ***stuff*** happens, you will be ready. Get in the habit of assessing your finances every year to be sure you are on the right track. Your annual assessment will consider such things as inflation, interest rates, budgets and longevity. Get ready to take step one.

Step 2 — Adjust

Adjusting your current financial plan is your second step to a more secure financial future. If you decide that adjustments should be made, you can use the options that are available to you through a variety of resources. Perhaps the biggest task in today's savings and investing environment is that you will have direct control over the majority of your money. In the past, most people accumulated money through their workplace, and that money was controlled by someone else—employers, the government or insurance companies. However, with the greater satisfaction and potential of personal control come the risk of not making the right decisions, not seeking professional advice and, perhaps the biggest risk, doing nothing and not letting your money work for you. Here's the good news. After today you will better understand the options available to you and the resources to help you make those adjustments successfully.

Step 3 — Protect

Protecting your income, assets, identity and loved ones is the third step and is perhaps the most important step you will learn about today. Why? If you don't think about protecting yourself from some predictable and some unforeseen problems, all of your hard work to secure your financial future may be wasted. What protection is important? Insurance will protect you and your loved ones from financial losses due to accident, injury, death or disability. Insurance or income security is something you want to have. Estate planning is a must to protect your assets for those you leave behind. By implementing an estate plan you can take care of the people you care about even after your death. Protecting your investments is a significant goal. Today, with cases of unethical behavior in the investment arena, you must be prepared to protect yourself. Last but not least, knowing how to guard against identity theft will help to keep you from experiencing the nightmare of having your financial identity stolen and enduring the time it can take to regain control of your financial life.

Introduction

Start today to improve your potential for financial success by making a commitment to three action steps.

☑ I will assess my financial situation.

☑ I will adjust my financial plan.

☑ I will take the necessary precautions to protect myself and my family from unforeseen financial problems.

You will leave here today with more information about the potential solutions and actions you can use to take the three steps to a secure financial future. You have the ability to be in control of your finances. During the day today, keep an eye on your hopes and dreams, and gain the confidence to overcome your fears.

Set a goal for the day.

Workshop and Chapter Descriptions

Budgeting
Learn major strategies to balance your budget and achieve your financial goals, including increasing income, decreasing withholdings, decreasing expenses, and reorganizing debt.

Credit & Debt: Using it Wisely
Learn how to determine your assets and liabilities, enhance your credit worthiness by reducing credit debt, and establish good credit history.

Estate Planning
With proper planning, the administration of your estate will not be delayed or costly if something happens to you. Learn about options for transferring your assets and the importance of establishing durable power of attorney, an executor of your will, and a guardian for your children.

Home Ownership
Home ownership is a good financial decision—and an attainable goal—as an investment with important tax advantages. Learn how to determine what you can afford, identify special mortgage financing programs, and strategize on how best to save for a cash down payment.

Insurance—Managing Risk
Learn how to use insurance to protect your assets and manage financial risk through health insurance, life insurance, disability insurance, auto and home insurance, and other protections against specific risks.

Retirement Planning
Learn how to establish a retirement planning timeline and how to compare different retirement planning investment options by considering tax deferral or liability, possible employer contributions, the safety of your investments, and access to your funds should the need arise.

Investing for the Future (Investment I and II)
Clarify your investment goals, your timeline, your ability to save, and your tolerance for risk. Learn how to evaluate an investment vehicle to see the level of risk and return it carries and to project the future value of your investments using average returns.

Identity Theft
It can take months to straighten out problems created when your personal or business accounts are violated. This workshop alerts you to the precautions you can take to prevent what could be a catastrophic experience.

Kids & Money
Are you teaching your children about sound money managements? Learn about tools to teach you kids to save, spend, and understand money.

2004 Women & Money Conference
New Hampshire Resources

AARP – New Hampshire
900 Elm Street, Suite 702
Manchester, NH 03101
(603) 629-9559 • www.aarp.org/nh
AARP is dedicated to enhancing the quality of life for people over 50 years of age through information, advocacy and direct services.

AHEAD: Affordable Housing, Education, and Development
161 Main Street
Littleton, NH 03561
(603) 444-1377 • www.homesahead.org
AHEAD provides families of limited means in Coos and northern Grafton Counties with an array of educational services related to home ownership and housing.

Center for Financial Studies, Southern New Hampshire University
2500 North River Road, RF-111B
Manchester, NH 03106-1045
(603) 629-4650 • www.snhu.edu
The Center for Financial Studies strives to provide access to a thorough and current base of cutting-edge knowledge in matters of finance and economics appropriate for a broad range of interests.

Community Loan Fund
7 Wall Street
(603) 224-6669 ext. 225 • www.nhclf.org
The New Hampshire Community Loan Fund provides resources for low- and moderate-income people to increase their economic self-sufficiency.

Concord Area Trust for Community Housing
79 South State Street
Concord, NH 03301
(603) 2258835 • www.catchhousing.org
CATCH is committed to helping families and individuals in the Concord area access safe, decent, and affordable housing.

Consumer Credit Counseling Service of New Hampshire & Vermont
105 Loudon Road, Building 1
Concord, NH 03301
(603) 224-6593, ext. 120 • (800) 327-6778, ext. 120 • www.cccsnh-vt.org
CCCS offers free confidential credit counseling, low-cost debt repayment plans, and financial education programs for both New Hampshire and Vermont residents.

Consumer Protection and Antitrust Bureau
33 Capitol Street
Concord, NH 03301
(603) 271-3658 • www.doj.nh.gov
The Consumer Protection and Antitrust Bureau, a division of the State Department of Justice, protects consumers from unfair and deceptive business practices in New Hampshire.

Micro-Credit New Hampshire
7 Wall Street
Concord, NH 03301
(603) 224-2069 • www.microcreditnh.org
Micro-Credit New Hampshire provides assistance to New Hampshire's smallest businesses through business training, loans, networking opportunities and other support.

New Hampshire Business and Professional Women
(603) 226-5859 • www.nhbpw.org
NHBPW is committed to increasing equity for working women through education, training and research.

New Hampshire Coalition Against Domestic and Sexual Violence
PO Box 353
Concord, NH 03302
(603) 224-8893 • www.nhcadsv.org
The NHCADSV is an umbrella organization for a statewide network of 14 independent member crisis centers for survivors of domestic and sexual violence in New Hampshire.

New Hampshire Commission on the Status of Women
Room 414 State House Annex
Concord, NH 03301
(603) 271-2660 • www.nh.gov/csw
The Commission on the Status of Women is a state agency devoted to enhancing opportunities for the women and girls of the state by monitoring legislation as it relates to women, identifying and seeking to remedy discrimination against women, promoting opportunities for women to develop their skills and continue their education, and recognizing women for their accomplishments. The Commission maintains a comprehensive directory of resources on such issues as housing, employment, education, women's business ownership, sexual harassment prevention, health and wellbeing, and youth services.Visit the website or call the Commission office for more information.

New Hampshire Higher Education Assistance Foundation
4 Barrell Court
PO Box 877
Concord, NH 03302-0877
(603) 225-6612 • www.gsmr.org
The goal of NHHEAF is to provide funding assistance for higher education to New Hampshire residents, parents, and students.

New Hampshire Housing Finance Authority
P.O. Box 5087
Manchester, NH 03108
(603) 427-8623 • www.nhhfa.org
The mission of the New Hampshire Housing Finance Authority is to promote and finance safe and affordable housing and related services for New Hampshire families, individuals and communities.

New Hampshire Legal Assistance & The Senior Law Project
1361 Elm Street, Suite 307
Manchester, NH 03101
(603) 206-2210 • www.nhla.org
New Hampshire Legal Assistance provides free legal help to low-income persons on such issues as domestic violence, housing, and public assistance benefits.

NHLA oversees the Senior Law Project, providing legal counsel, advice, representation, and referral in non-criminal matters to all New Hampshire seniors regardless of income. The project operates a toll-free statewide advice line at 888-353-9944 (603-624-6000, Manchester only).

2004 Women & Money Conference New Hampshire Resources

U.S. Department of Labor Women's Bureau
J.F.K. Federal Building, Room E-270
Boston, MA 02203
(617) 565-1988 • (800) 518-3585 • www.dol.gov/wb
The mission of the Women's Bureau is to promote profitable employment opportunities for women by enhancing their skills and improving their working conditions.

U.S. Small Business Administration
Stewart Nelson Plaza
143 North Main Street, Suite 202
Concord, NH 03301
(603) 225-1400 ext. 122 • www.sba.gov
The U.S. Small Business Administration works to aid and protect the interests of small businesses in the United States and to assist families and businesses recover from national disasters.

U.S. Social Security Administration
70 Commercial Street, Suite 100
Concord, NH 03301
(603) 224-193 • www.ssa.gov
The U.S. Social Security Administration manages Social Security programs in the United States, including retirement and disability benefits for workers.

University of New Hampshire Cooperative Extension
Family Resource Management
308 Pettee Hall, 55 College Road
Durham, NH 03824
(603) 862-0092 • ceinfo.unh.edu
University of New Hampshire Cooperative Extension provides money management workshops and publications in communities throughout New Hampshire. These workshops and publications focus on developing spending and savings plans, managing credit and debt, managing risk, setting financial goals, and stretching resources in order to achieve financial security now and later in life.

Women's Business Center
150 Greenleaf Avenue, #8
Portsmouth, NH 03801
(603) 430-2892 • www.womenbiz.org
The Women's Business Center promotes women's business ownership as a means to maximize personal potential and achieve economic independence for women in New Hampshire through education, counseling, mentoring and advocacy.

Women's Fund of New Hampshire
46 South Main Street
Concord, NH 03301
(603) 226-3355 • www.wfnh.org
The Women's Fund of New Hampshire is dedicated to encouraging philanthropy among women and girls; improving the lives of women and girls through social change grant making; and educating the community about the potential of women and girls.

Women's Rural Entrepreneurial Network
2011 Main Street, P.O. Box 331
Bethlehem, NH 03574
(603) 869-9736 • www.wrencommunity.org
Founded in 1994 to assist rural women in achieving sustainable incomes through business ownership, WREN has since diversified its initiatives in support of bettering the lives and livelihoods of the women and girls of the North Country.

YWCA
72 Concord Street
Manchester, NH 03101-1823
(603) 625-5785
The YWCA provides a wide range of direct services and enrichment programs for women and girls.

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Budgeting

Budgeting: A Useful Financial Tool

A budget is a very useful tool to manage and control your spending and saving. You can use a budget to be more aware of your spending behaviors, to use your income in a way that maximizes your goals, and to keep an eye on your financial goals. Many people think that budgets are a lot of hard work and too complicated. Don't let fears and misunderstanding about budgeting get in your way.

A few simple steps can get you started. The first step is to determine your budget goals after reviewing your income and expenses. You should recognize that maintaining a budget requires making tough decisions and trade-offs among your many financial goals. You can improve your budgeting success by adjusting your behaviors with new spending and saving strategies. With a little thoughtful decision-making and discipline, you can use a budget to help achieve your financial goals and protect your financial security.

- You can assess your current income and spending and set achievable budget goals.
- You can adjust your goals and budget as your lifestyle, income and expenses change.
- You can protect yourself from the potential problems resulting from overspending and lack of good budget planning.

Brenda
34 Years Old
Divorced
1 Child, Jenny (11)
Sales Representative
Berlin

Budgeting Case Study

Brenda has a good job with excellent benefits. However, her lifestyle is getting expensive. Brenda's wardrobe is looking dated, her car is getting older, and her expense account never seems to balance, leaving her with a credit card debt that just keeps growing. Her daughter, Jenny, is beginning to demand a new wardrobe each season, as well as all the neat stuff that her friends have. Shopping with Jenny is fun and fills a need for them to spend time together. Oh well, the bonus will pay for it.

Brenda watched her parents argue over money and learned to use their conflicts to her advantage. Her mother often would give her money to get her out of the house. When that didn't work, she could count on her grandmother. Like a fairy godmother, Grandma paid for all of Brenda's college expenses.

Lately, Brenda and Jenny are having more arguments. Jenny has inherited Brenda's love of clothes and jewelry. She has learned how to manipulate Brenda to get what she wants. Brenda has just as hard a time saying no to her daughter's impulses as she does to her own. Jenny's father lives in another state. His child support payments of $350 per month are helpful, but not really enough to give Jenny everything she wants.

This analysis will help Brenda see the reality of her situation and help her discover solutions. She may find new ways to communicate with Jenny and feel better about herself without spending money she doesn't have.

Brenda's Monthly Budget

INCOME	
Salary	$ 3,000
Commission	$ 1,000
Interest	$ 75
Child Support	$ 350
Bonus	$ 600
Monthly Total	$ 5,025

SALARY WITHHOLDINGS	
Federal Income Tax	$ 731
Social Security/Medicare	$ 352
Health Insurance	$ 125
Life Insurance	$ 15
Disability Insurance	$ 32
401(k) Contribution	$ 144
Monthly Total	$ 1,399

REGULAR CASH EXPENSES	
Groceries/Household	$ 350
Dining Out	$ 300
Entertainment	$ 130
Dry Cleaning	$ 70
Auto/Gasoline	$ 110
Personal Care/Hair	$ 85
Prescriptions/Co-Pay	$ 25
Clothing	$ 160
Monthly Total	$ 1,230

MONTHLY BILLS	
Mortgage/Tax/Insurance	$ 1,224
Car Lease	$ 387
Utilities/Water	$ 180
Telephone/Cell Phone	$ 150
Cable/Internet	$ 74
Auto Insurance	$ 85
Lawn Care/Cleaning	$ 60
Memberships	$ 65
Monthly Total	$ 2,225

CREDIT/DEBT PAYMENTS	
Credit Cards	$ 180
Home Improvement Loan	$ 80
Orthodontist	$ 50
Violin Rental	$ 30
Monthly Total	$ 340

SAVINGS FOR ANNUAL EXPENSES	
Car Repairs	$ 35
Medical/Dental	$ 50
Home Repairs	$ 250
Vacation	$ 100
Gifts/Holidays	$ 100
School/Sports Fees	$ 40
Monthly Total	$ 575

Brenda's Family Net Worth

ASSETS	
Home	$ 120,000
401(k) Account	$ 18,500
Fine Jewelry	$ 3,000
Total Assets	**$ 141,500**

LIABILITIES	
Mortgage	$ 108,000
Credit Card Balance	$ 9,000
Violin Rental Contract	$ 360
Home Improvement Loan	$ 5,000
Orthodontist Balance	$ 2,500
Total Liabilities	**$ 124,860**
Net Worth	**$ 16,640**

Worksheet: Brenda

There are eight major strategies for balancing a budget. Brenda's budget is short by $744 each month. Which strategies do you think would work for Brenda?

BUDGET ITEM	CURRENT AMOUNT	SUGGESTED AMOUNT	NEW IDEAS/BENEFITS
1. INCREASE CURRENT INCOME			
Salary	3,000		
Commission	1,000		
Interest	75		
Child Support	350		
Bonus	600		
2. DECREASE WITHHOLDINGS			
Federal Income Tax	731		
Social Security/Medicaid	352		
Health Insurance	125		
Life Insurance	15		
Disability Insurance	32		
401(k) Pension Contribution	144		
3. DECREASE CASH EXPENSES			
Groceries	350		
Dining Out	300		
Entertainment	130		
Dry Cleaning	70		
Auto/Gasoline	110		
Personal Care/Hair	85		
Prescriptions/Co-pay	25		
Clothing	160		
4. DECREASE BILLS			
Mortgage Payment	878		
Property Taxes	346		
Car Lease	387		
Utilities/Water	180		
Telephone/Cell Phone	150		
Cable/Internet	74		
Auto Insurance	85		
Lawn Care/Cleaning	60		
Memberships	65		
5. DECREASE PAYMENTS ON DEBT			
Credit Cards	180		
Home Improvement Loan	80		
Orthodontist	50		
Violin Rental	30		
6. DECREASE SAVINGS FOR LARGE EXPENSES			
Medical/Dental	50		
Car Repairs	35		
Home Repairs	250		
Vacation	100		
Gifts/Holidays	100		
School/Sports Fees	40		
7. SELL ASSETS			
Family Residence	120,000		
401(k) Account	18,500		
Fine Jewelry	3,000		
8. REORGANIZE DEBT			
Homeowners Mortgage Co.	108,000		
VISA Card Balances	9,000		
Violin Rental	360		
Orthodontist Balance	2,500		
Home Improvement Loan	5,000		

Worksheet: You

There are eight major strategies you can use to balance your budget and achieve your financial goals. After you gather the numbers for your budget, use the eight strategies to look for possible ways to adjust your budget to achieve your goals.

BUDGET ITEM	CURRENT AMOUNT	SUGGESTED AMOUNT	NEW IDEAS/BENEFITS
1. INCREASE CURRENT INCOME			
2. DECREASE WITHHOLDINGS			
3. DECREASE CASH EXPENSES			
4. DECREASE BILLS			
5. DECREASE PAYMENTS ON DEBT			
6. DECREASE SAVINGS FOR LARGE EXPENSES			
7. SELL ASSETS			
8. REORGANIZE DEBT			

Budgeting, A Useful Tool

A budget is used to plan day-to-day, month-to-month or annual spending. Most of your budgeting decisions are relatively short-term or, hopefully, part of a thoughtful month-to-month plan. Don't forget that a budget is also a tool to help you achieve your long-term goals such as saving for a down payment on a new car, for a house, or your child's education. If you can regularly pay the bills, you can regularly save for the future. Thinking about both your short-term and long-term spending decisions will be an important part of your overall financial well-being.

Ask Yourself

- What do I own that has market value? *(What are my assets?)*
- What do I owe? *(What are my liabilities?)*
- What are my short-term and long-term financial goals?
- How much of my income can I save or do I want to save?
- How can I make better decisions about my spending and saving?
- How can I stick to a budget and achieve my financial goals?
- Where does my money go now?

Budgeting

A budget is a tool for making better spending and saving decisions. A budget should not be perceived as a problem; it is best viewed as a potential solution to many problems and a way to achieve your goals. Budgeting is one of the first stepping stones in the path to many of the financial processes described in this workbook.

The first step in a budget or any financial plan is to assess your financial situation. Prior to thinking about saving, investing, purchasing insurance, or using credit or home ownership, a few thoughts about the benefits of a budget may be helpful.

- A budget should always include a plan to reduce debt.
- Adding some amount of regular savings to a budget can lead to an investment strategy.
- An employer's contribution to your 401(k) should be included in your overall budget to more accurately keep track of financial goals.
- How will decisions such as borrowing or refinancing a mortgage affect budget decisions?
- Future financial plans, like paying for a college education, should be part of a budget.
- Insurance coverage can be an important part of a budget plan to reduce risk and unforeseen expenses.
- Long-term goals, such as retirement, need to be considered when creating a budget.

Assess Your Financial Situation

There are two ways you can begin assessing your personal financial situation. First, you can take an inventory of the value of what you own—your **assets—**and what you owe—your **liabilities**. The difference between what you own and what you owe is your **net worth**. Second, you can look at your income and your spending patterns—your **cash flow**. These two ways of looking at your personal finances will be important for a variety of reasons. Having a better understanding of your personal financial picture is critical for day-to-day decisions and planning for the future.

Budgeting, A Useful Tool

Net Worth

Once a year it is important to determine your net worth. You may need to do this when applying for a loan or student financial aid, or when assessing retirement options. Whether you need the assistance of a professional to do this depends on your situation. Many people can make this assessment in a short period of time. The first thing to do is assemble all of the critical information about your assets and your liabilities.

Formula for Net Worth

The value of your assets, minus your liabilities, equals your net worth.

The value of your assets: $ ____________________

minus your liabilities: $ ____________________

equals your net worth $ ____________________

Assets

What is the total value of the things you own, your assets? Your house? Your car? Your personal possessions? Do you own any stocks or bonds? What about savings accounts, certificates of deposit, or money hidden under your mattress? Is there any cash value in your insurance policies? Add it all up, carefully inventorying your assets and realistically placing a value on them. What could you sell them for in a short period of time?

This should be a pleasant task. By adding up your assets, you may discover more **wealth** than you thought you had. Good questions to ask in determining assets are:

How much can I sell my home for in a short time?*	$ ______________
Do I own any other real estate?	$ ______________
How much is my car worth if I want to sell it?*	$ ______________
How much do I have in my savings account?	$ ______________
What is the balance in my checking account?	$ ______________
What are my stocks worth?	$ ______________
What are my bonds worth?	$ ______________
What are my mutual funds worth?	$ ______________
What is the cash value of my life insurance policy?	$ ______________
What is the cash value of my retirement plan?	$ ______________
Does anyone owe me money?	$ ______________
Do I have personal property *(i.e. jewelry, ATV or snowmobile)* I can sell?	$ ______________
Am I owed child support or alimony?	$ ______________
Do I have other assets of significant value?	$ ______________
Total Assets	$ ______________

* It is possible you will owe more than the market value of a mortgage or automobile.

Liabilities

A less pleasant task is adding up your liabilities. To whom do you owe money *(or other assets)*, and how much do you owe? For purposes of this exercise, do not worry about your day-to-day expenses. Those become important when determining your budget.

The key concept here is ***net*** worth, or the amount left after you subtract your liabilities from your assets. For instance, you may own a home with a market value of $100,000, but you still owe $65,000 on the mortgage. Your ***net*** from this one item is $35,000. Ask these questions:

What is the outstanding balance on my home mortgage?*	$ ______________
What do I owe on my car loan?*	$ ______________
What are the outstanding balances on my credit card accounts?	$ ______________
Do I have any other outstanding loans or legal obligations?	$ ______________
Do I owe taxes?	$ ______________
Do I owe child support or alimony?	$ ______________
Total Liabilities	$ ______________

In determining your net worth, do not consider your regular monthly income and expenses. Your net worth is a measure of how much you own that is currently debt-free. This is not a measure of your long-term financial situation, but is a snapshot of your position right now.

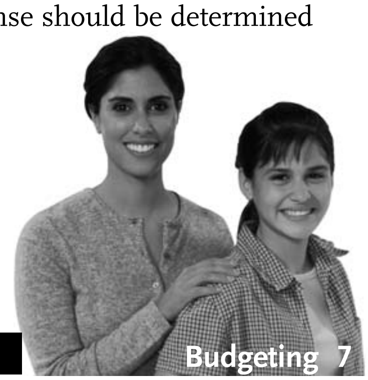
There are two basic ways to improve your finances in the short term: earn more money without increasing your expenditures, and/or spend less. In the long term, decisions you make about saving and investing are critical. Let's look at the short term—this month, next month and the rest of the year.

Budgeting

This module primarily focuses on your income, your spending and how you can benefit from a well-planned budget. For this purpose, three critical factors are your annual and monthly income, and your daily spending behavior.

Measuring income is usually easy. Getting income is the hard part. You can work more, ask for a raise, take a second job, sell things or invest in something that provides dividends. Income is any regular payment you receive. A large one-time payment such as an inheritance would be considered an asset, not income, unless you regularly ***pay yourself*** from the inheritance.

In determining a budget, it is critical that you do not underestimate your spending. Having a little left over is better than coming up short at the end of the month. First, add up all of your regular expenses. Each expense should be determined over the same period of time. Monthly amounts are usually the easiest to compare.



Income

Monthly net pay*	$__________
Other regular payments *(monthly)*	$__________
Interest and dividends paid in cash	$__________
Alimony or child support	$__________
Irregular payments *(divided by twelve months)*	$__________
Other income**	$__________
Total Monthly Income	$__________

*The actual amount of your paycheck, not the "gross" amount for the pay period.
** This may include amounts in savings or other assets that you plan to spend regularly.

Expenses

Mortgage payment or monthly rent	$__________
Other regular home-related payments *(maintenance)*	$__________
Auto loan payments	$__________
Credit card payments ***	$__________
Other loans or financial obligations paid regularly	$__________
Tax payments *(not those taken from your paycheck)*	$__________
Insurance payments *(auto, home, health, life)*	$__________
Automobile expenses *(gas, tune-ups, etc.)*	$__________
Entertainment expenses	$__________
Utilities *(electric, gas, phone, water, sewer)*	$__________
Clothes and personal items	$__________
Other regular services *(trash collection, cable TV, etc.)*	$__________
Unexpected expenses	$__________
Debt reduction	$__________
Total Monthly Expenses	$__________

*** Include the amount(s) you regularly intend to pay. Do not include the total balance unless you plan to pay your balance in full each month. Total all card payments or list them separately.

Some expenses may be paid annually, semi-annually or quarterly. If so, divide the total by 12, six or four to determine the monthly amount. This assumes you will save this amount each month in order to make the payments when due.

Developing a Budget

A budget should be in writing. There is something about putting it on paper that makes it more real. Okay, now I have a budget, but I don't have enough money to have any fun. What do I do? This is probably the most common question people ask after making a budget. How can I do more? I don't want to give up everything!

Some Budget Hints

- Track your expenses by category. Collect your receipts for a month to determine how you are really spending your money on items such as food, rent, clothing, transportation, and entertainment.
- Your regular expenses are ones that you are committed to each month, usually for the same amount, such as your mortgage and loan payments. Others, such as electricity and telephone, will change from month to month. Determine a monthly average for an entire year. Remember that the electric bill will increase when you turn on the air conditioning or heat.
- Be sure to include a regular amount for savings. You may want to consider this amount an expense. It is a good idea to ***pay yourself*** on a regular basis to increase your savings.
- Expenses such as insurance and taxes may be paid on a quarterly or annual basis, rather than monthly. For these, divide the quarterly payment by four, or the annual payment by 12, to arrive at the amount you will need to set aside each month.

- Some expenses will be variable and change each month. Unexpected emergencies cannot be budgeted, but regular doctor and dental visits should be included. Some expenses, such as car repairs, may be out of your control. Put aside a little in savings for such emergencies. Dining out and clothing purchases are expenses that can get out of control if you are not careful. Budget a reasonable amount for each.
- After you have determined your monthly and annual expenses, determine your income. Be sure to use your take-home pay.
- Subtract your monthly and yearly expenses from your income. If you find that your expenses are greater than your income, you will need to take another look at your spending. Try to not cut your savings.
- A budget is just a guideline. You have to keep track of your income, spending and saving, and constantly review your goals.
- Budgeting requires self-control and discipline to reach your goals. With some work and resolve, you will develop good budgeting habits.

Adjust to Meet Your Budget Goals

There are really only two ways to stay within your budget if you have problems with spending and saving. You can find ways to increase your income. Having more income allows you to pay your bills and think more about saving. The other way to adjust is to spend less, find ways to cut expenses.

Increasing Income

Income is a result of your ability to sell your talents and skills to an employer or take advantage of the income that is available to you. The simple answer is ***work more.*** However, many people cannot work longer hours, so that is not the best answer for them. What can be done to increase your earning power?

- A *short-term* approach is to ask for a pay raise. This may seem too simple, but it may work. Of course, before you ask, you should provide your employer with credible information as to why you are worth more.
- A *long-term* approach to increasing your income is to take advantage of free or low-cost classes at colleges, vocational schools, or community centers. Increasing your skills makes you more valuable in the labor market.
- Adjusting your savings or investments could produce a greater amount of income. For instance, although some stocks do not change much in value they pay regular dividends that could increase your income.

Cutting Expenses

The other side of the coin is to cut expenses. These decisions involve giving up some things you want or at least changing your wants.

- Find some little things that might save just a dollar or two a day. For instance, if you buy coffee at work, try taking your own coffee in a thermos. Saving just one dollar a day at work will amount to about $250 a year.
- Park farther away from where you work. The general ***rule of thumb*** is that the farther away the parking lot, the less expensive the parking. Maybe the exercise will be another benefit. Don't try to make this decision on a day when it is snowing!
- What can you do without? Lunch out one day a week? Paying the kid down the street to mow your lawn? What about all those magazine subscriptions? How about using the library?
- Find the next best thing at a lower price. Are name brands really better than generic brands? Can I get by with fewer cable stations? Can I resist all of those ***extra*** charges like call waiting, super-sizing or the stuff at the checkout counter?
- Re-assess your overall spending patterns. What do you do that costs you more than you realize? How much do you spend in a week on food, clothes or fun? Are you willing to give up some luxuries or a little fun in the short term to improve your financial situation in the long run?

Making the Most of a Budget

Assess

- Make a list of all of your regular income and expenses. Think about your short-term and long-term goals. Design a budget and stick to it. After you have successfully followed your budget for a while, give yourself a treat—but be sure it's within your budget!
- Many community organizations, banks, colleges, consumer credit counselors, senior centers and local governments sponsor free workshops on budgeting. Your employer may have an Employee Assistance Plan (EAP). If you need support, use one of these resources.
- If you own a computer, take advantage of a spreadsheet program that commonly comes with it to set up and easily track your budget. Software that tracks all of your accounts allows you to categorize your income and expenditures and, with the touch of a key, allows you to produce informative reports.

Adjust

- Regularly review your budget to determine where you can make changes that will help you achieve your goals. Include the whole family in the discussion and decision-making. Reward yourself and your family for a successful year.
- As your income increases, your ability to save and invest also will change. Keep an eye on increases in the cost of living, but take advantage of your new income to budget for and try something new.
- As your children age, their expenses will change. Be sure your budget takes these changes into account. Don't forget college expenses.
- When you retire, your income and expenses probably will decrease. With more time on your hands, you may choose to travel. Budgeting before and during the trip will help you to enjoy your travels and not worry about money.

Protect

- As you get closer to retirement age, your saving and investment needs will require some attention and maybe more protection. Budgeting decisions you make now will affect your future retirement income.
- As you get older, your medical expenses probably will increase. Be sure you are prepared.
- Review your insurance needs regularly. As your family grows and you acquire assets such as a car, house, furniture, artworks, boat, jet skis or other objects, the need to protect your assets increases.

Looking for More Information About Budgets?

National Foundation for Consumer Credit (NFCC), 1-800-388-2227, www.nfcc.org
The NFCC is a national association of credit counseling agencies. These agencies offer budget and credit education programs, as well as debt-reduction programs.

CNN Money, *Making a Budget,* http://cgi.money.cnn.com/tools/instantbudget/instantbudget_101.jsp

About.Com, *Budgeting,* http://financialplan.about.com/msubbudg.htm

MSN Money, Get a Budget, Get a Life, http://moneycentral.msn.com/Content/Savinganddebt/Learntobudget/learntobudget.asp

University of New Hampshire Cooperative Extension Publications, 603.862.2346

- Develop A Spending/Savings Plan, http://ceinfo.unh.edu/Family/Documents/DSSPO1.pdf
- Making Ends Meet, http://ceinfo.unh.edu/Family/Documents/EndsMeet.pdf
- When Your Income Drops, http://ceinfo.unh.edu/Family/Documents/incodrps.pdf
- Your Valuable Papers, http://ceinfo.unh.edu/Family/Documents/value_p.pdf

Consumer Credit Counseling Service of New Hampshire/Vermont
CCCS shows you how to take charge of your money. Face-to-face, online, or over the telephone, CCCS provide confidential counseling and assistance to families and individuals needing guidance in managing their money, use of credit and debt repayment.

cccs@www.cccsnh-vermont.org or **1-800-327-6778**

NOTES

NOTES

Credit & Debt Management

Credit and Debt: Using it Wisely

Using credit is a convenient way to take care of many of our day-to-day financial responsibilities. You can use a credit card to make purchases, or take out a loan for a large purchase. In order to make the best use of credit, you can and should establish a good credit record.

Not using credit wisely can result in real nightmares. The system of credit is based on trust–the trust of both lenders and borrowers to fulfill their obligations. Many people use credit very successfully. Others are very cautious. You should recognize that credit is a spending tool that must be used carefully. You can enhance your creditworthiness by reducing your debt and establishing a good credit history.

- You can gather information to assess your use of credit and your creditworthiness.
- You can adjust the way you use credit and overcome past credit problems.
- You can protect your financial health by establishing a more positive credit history.

Cynthia
50 Years Old
Divorced
1 Child, Brad (18)
Customer Service Representative
Manchester

Credit & Debt Case Study

Cynthia's son Brad was about to begin college. What a proud moment! Although Cynthia was a single mother, she always found a way to let her son have all the experiences that would give him a better life. Usually, that meant going without or going in debt. Her debt is barely manageable. Now that she should be celebrating her terrific success as a parent, she is lying awake wondering if she will ever be out of debt.

Cynthia has always stressed to her son the importance of a good education. Brad kept his grades up, even though he has worked since he was twelve. Brad will live with her while in college. He manages all of his own expenses, including clothing and car insurance. He knows it has been tough for her and doesn't ask for anything. She is proud of him.

Cynthia has used credit as a solution to her problems. She has refinanced and consolidated her debt using her home equity and her company's 401(k) plan. She has always been able to qualify for the credit she's needed. She always paid her bills on time. So it was a shock to her when she was turned down for a parent loan for Brad's college due to the amount of her debt.

This case study examines the total impact Cynthia's debt will have on her future and looks for strategies to eliminate it. She may be surprised at how quickly she can get out of debt.

Cynthia's Monthly Budget

INCOME

	Cynthia	Brad
Salaries	$ 3,365	$ 620
Monthly Total	$ 3,365	$ 620

REGULAR CASH EXPENSES

	Cynthia	Brad
Groceries/Household	$ 235	$ 100
Dining Out	$ 40	$ 60
Auto/Gasoline	$ 60	$ 40
Personal Care/Hair	$ 20	$ 10
School/Books	$ 0	$ 50
Monthly Total	$ 355	$ 260

CREDIT/DEBT PAYMENTS

401(K) Loan	$ 65
Home Equity Loan	$ 200
VISA Card	$ 60
Cable Shopping Card	$ 40
Finance Company Loan	$ 35
Store Credit Card	$ 35
Credit Union Loan	$ 15
Monthly Total	$ 450

SALARY WITHHOLDINGS

	Cynthia	Brad
Federal Income Tax	$ 461	$ 43
Social Security/Medicare	$ 257	$ 37
Health Insurance	$ 57	
Life Insurance	$ 22	
Disability Insurance	$ 14	
401(K) Contribution	$ 143	
401 (K) Loan	$ 65	
Monthly Total	$ 1,019	$ 80

MONTHLY BILLS

	Cynthia	Brad
Mortgage/Taxes	$ 631	
Utilities	$ 106	
Telephone/Cable/Internet	$ 79	
Auto Insurance	$ 35	$ 75
Water/Sewer/Trash	$ 50	
Monthly Total	$ 901	$ 75

SAVINGS FOR ANNUAL EXPENSES

	Cynthia	Brad
Medical/Dental	$ 45	
Car Repairs	$ 50	$ 20
Home Repairs	$ 70	
Clothing	$ 40	$ 10
Vacation	$ 40	
Gifts/Holidays	$ 20	
College Tuition	$ 150	$ 150
Monthly Total	$ 415	$ 180

Cynthia's Family Worth

ASSETS

Home	$ 61,400
Cynthia's Car	$ 1,500
Brad's Car	$ 800
401(K) Account	$ 29,050
Total Assets	**$ 92,750**

LIABILITIES

Mortgage	$ 36,345
Home Equity Loan	$ 10,000
Student Loan (Brad)	$ 3,000
VISA Credit Card	$ 3,000
Cable Shopping Card	$ 675
Finance Company Loan	$ 1,260
Store Credit Card	$ 1,475
Credit Union Loan	$ 1,000
401(K) Loan	$ 2,700
Total Liabilities	**$ 59,455**
Net Worth	**$ 33,295**

Credit and Debt: Using it Wisely

Cynthia's debt payments have become a burden on her budget. Her first instinct was to consolidate or refinance (once again) her debts. This exercise demonstrates how Cynthia can consolidate her debt through a *self-consolidated loan* that allows her to gain control of her debts more quickly. Then she can think about other ways to keep within her family budget.

	Outstanding Balance ($)	X X	Interest Rate/12	= =	Monthly Interest	Monthly Payment ($)
401(k) Loan	2,700	x	0.07/12	=	________	65
Home Equity Loan	10,000	x	0.13/12	=	________	200
VISA Credit Card	3,000	x	0.21/12	=	________	60
Cable Shopping Card	675	x	0.22/12	=	________	40
Finance Company Loan	1,260	x	0.25/12	=	________	35
Store Credit Card	1,475	x	0.26/12	=	________	35
Credit Union Loan	1,000	x	0.15/12	=	________	15
TOTALS*	20,110 (A)				________ (B)	450 (C)

* Payments for Brad's student loan will not begin until he graduates or is no longer a full-time student.

Multiply the total monthly interest (B) by 0.60	________ (B)	x	0.60	=	________ (D)
Subtract average interest (D) from total monthly payment (C)	________ (C)	—	________ (D)	=	________ (E)
Divide the total debt (A) by the average principal payment (E)	________ (A)	÷	________ (E)	=	________ (No. Months)

Now let's show her how adding $50 per month to her principal payment will help her:

Divide the total debt (A) by the average principal payment (E)	________ (A)	÷	________ (E)	=	________ (No. Months plus $50)

Credit and Debt: Using it Wisely

After you gather the following data for each of your debts, work through the calculations to see how many months you have until you are out of debt. If you would like to pay off your debts sooner, add $50 to the monthly payment until you arrive at a time period that pleases you.

	Monthly Balance ($)	X	Rate/12	=	Interest	Payment ($)
______	______	X	______	=	______	______
______	______	X	______	=	______	______
______	______	X	______	=	______	______
______	______	X	______	=	______	______
______	______	X	______	=	______	______
______	______	X	______	=	______	______
______	______	X	______	=	______	______
Totals	______ **(A)**				______ **(B)**	______ **(C)**

Multiply the total monthly interest (B) by 0.60	______ (B)	x	0.60	=	______ (D)
Subtract average interest (D) from total monthly payment (C)	______ (C)	—	______ (D)	=	______ (E)
Divide the total debt (A) by the average principal payment (E)	______	÷	______	=	______ (No. Months)

Now let's see how adding $50 per month to your principal payment will help you:

Divide the total debt (A) by the average principal payment (E)	______ (A)	÷	______ (E)	=	______ (No. Months)

Credit and Debt: Using it Wisely

Take a good look at your personal finances and your past experiences with credit. As you gather information about your credit history and think about the future, you should reflect on the benefits and costs of using credit. Credit can be a valuable tool, but misuse of credit can cause problems that may be difficult to overcome. You can take better control of your financial health by better understanding your credit and debt.

Ask Yourself

- Can I discipline myself to control my spending?
- Do I feel safe using cash and checks for my spending?
- Do I feel comfortable with the debts I have?
- Can I resist the urge to make purchases when I don't have the cash to make them?
- Will I be happier if I have more control over my spending habits?

Assess Your Short-Term and Long-Term Credit Goals

One of the problems with credit is that many people think only in the short term. You can use credit to get the things you want right now. The problem arises when the short-term purchase becomes a long-term liability. Making just the minimum payment on a credit card balance can extend by many years the time it takes to pay for something. Often, that great new sofa, leather coat or stereo system is worn out long before the last payment is made. Not thinking about the long-term costs of the short-term use of credit can cause big problems when you really want credit for a long-term large cost goal, such as buying a house. Your credit history stays with you for the long term.

Managing Your Credit

Credit can be a valuable tool for consumers. Credit cards and loans enable a person to purchase an item now and pay for it in the future. Whether the credit is from using a credit card or from a loan, the advantages, processes and potential problems of using a credit card or a loan are pretty much the same. *To keep this explanation simple, this section will focus primarily on credit card use.*

Credit cards allow you to go almost anywhere in the world and to purchase almost anything. There are a number of different credit cards from which to choose. Each will have different qualifications to receive credit, repayment rules, **annual percentage rates** *(APR)* and other costs and rules.

Secured and Unsecured Credit

If you have had some credit problems or have not yet established a credit record, one option is a **secured credit card**. A secured credit card is a credit card backed by money in a bank account. The risk for the lender is less because the money is ***in the bank.*** Using a secured credit card for a period of time will help to develop a positive credit history. Some lenders will offer an unsecured credit card to someone with a poor history, but usually with a low credit line, a high interest rate and higher fees. These kinds of cards may have very restrictive terms.

Debit Cards

First, a distinction should be made between a credit card and a debit card. A debit card is not a credit card, although it may look like one. Using a debit card takes money directly from your checking or savings account and transfers it to the merchant's account. It does not create a loan. The advantages of using a debit card for purchases are that it provides an instant record of your purchases, you do not have to carry as much cash and risk losing it, and you have easy access to the cash in your account.

Types of Credit Cards

Retail cards are those issued by businesses, typically department or specialty stores, that allow their customers to make purchases from those stores. The regulations and repayment processes are similar to other credit cards. Individual retail cards may not be accepted outside of that retail establishment.

Travel and entertainment cards are issued by companies such as American Express and Diners Club. They usually require full payment each month and charge a higher fee for their use. These cards typically offer extra incentives for their users, such as more detailed reports about their purchases. Fewer merchants may accept these cards.

VISA and MasterCard are associations that provide credit card services through banks and/or other organizations. Both are widely accepted. The issuing bank determines the conditions of the card. Understanding VISA and MasterCard can be confusing because so many banks offer them.

Affinity cards are a VISA or MasterCard offered by a bank in cooperation with an organization. For instance, you might have a University MasterCard issued by a bank. Your payment goes to the bank and a small part of the profits may benefit a University. The bank pays a fee to be a member of the MasterCard system. You benefit because you can make credit card purchases and also provide assistance to the University. However, you do not get the tax advantage of using the charitable deduction for the part of the payment money contributed to the University.

Choosing a credit card often requires a trade-off among the costs and benefits, such as the affinity card example above. Each card may have one or two benefits and some components that are not as good. For instance, a card with a higher fee may have a lower interest rate. If you cannot have a card with both low interest and a low *(or no)* fee, you must make a choice depending on which criteria is most appropriate for you. You will ***trade-off*** one criterion for another.

Choosing the right credit card is a complex process. ***Right*** depends on several variables about your spending and repayment habits. Consider these criteria:

- Does the card charge an annual fee or other fees for its use?
- What is the finance charge on outstanding balances? Is there a minimum finance charge?
- How long is the grace period within which you can pay the full balance and not be charged interest?
- How widely accepted is the card?
- Does it provide additional benefits to you or an organization?

Your Creditworthiness

Anyone who has established any kind of credit use has a ***credit record.*** Your history of using credit, paying your bills or not paying your bills, becomes part of a permanent record. People who use any form of credit may have a credit history on file with one of several credit reporting agencies. The most prominent of these agencies are **Equifax, Experian** and **TransUnion.** These three and many smaller credit-reporting companies keep track of an individual's credit usage, payment histories and other factors that are used to determine a person's creditworthiness. The credit card issuer or lender will use this information to make decisions about credit.

Consumers have a right to receive a copy of their credit report. There may be a small fee. Your credit history will list information about your credit cards, mortgage and other debt balances, and payment histories.

The lender will evaluate this information with a credit scoring system designed to determine who is worthy of credit. The lender will look at a variety of factors including your savings and other liquid assets, missed or late payments, job seniority and credit limits appropriate for your income and financial stability. Some credit card companies will take more risks and issue cards to people with fairly poor credit ratings. These companies will charge higher fees, higher interest rates and/or set lower credit limits. Choosing one of these cards and paying the balance regularly may be the best way for a woman to receive her first credit card and establish a positive credit history.

When applying for credit, it is important to understand both your personal credit history and the requirements of the creditor. The key criteria such as annual percentage rate *(interest)*, grace period, fees and other conditions will be listed in a special place on any credit application. Special offers and extra benefits will be described separately. Be sure to read the credit card application carefully and do not hesitate to ask questions. Most companies will list a toll-free telephone number where you can speak with someone who will answer your questions.

Only those with a legitimate business purpose who have your written permission may have legal access to your credit report. These purposes may include reviewing your loan application, issuing a new credit card, renting or buying a home, buying insurance, applying for a job, reviewing child support, or signing a purchase agreement.

The Fair Credit Reporting Act protects consumers from unfair or inaccurate credit reporting. Among other things, it allows you to receive a copy of your credit report *(usually for a small fee)*. You have the right to dispute and correct errors in your report. If you have a complaint about a creditor or credit bureau, you may want to contact the **Federal Trade Commission (FTC) Consumer Response Center.**

Making Adjustments

An important first step to help resolve past credit problems and reestablish good credit is to know your credit history. Call one or more of the major credit bureaus to receive information about how to request your credit report. If you have been denied credit, you are eligible to receive a free copy from the company that provided the report to the lender. The three major credit reporting agencies are **Equifax, Experian** and **TransUnion**.

How to Achieve and Maintain Excellent Credit

If you are successful with your credit card application, you want to establish a good credit history. Some general advice for borrowers includes:

- ***Pay more than the minimum payment each period.*** Paying the minimum payment will only lengthen the repayment time and cause interest to accumulate. In some cases, making the minimum payments will end up costing three or four times the original cost of the loan.
- ***Be aware of the grace period for all of your credit purchases.*** Your payments may not come due at the same time each month. During some months, more than one payment may be due. If you mail a payment, allow enough time for delivery by the due date. Some merchants offer a purchase with no interest or no payments for a year or more. Be aware that *after* this grace period, you may be asked to pay the original balance and the accumulated interest all at once OR you will be required to begin making regular payments to eliminate your debt.
- ***Make payments on time.*** Any payment, even the minimum, is better than a late payment. Late payment fees vary from lender to lender and can be very high. These fees will be listed on the credit card application. Again, plan for the extra time it will take for a creditor to receive your payment by mail.

- ***Stick to your credit limit.*** Many companies will charge an extra fee if you go over your approved limit. If you would like to go over your current limit, call the lender to ask if they will increase your limit. These fees will be listed on the credit card application.
- ***Call the lender if you have any questions about the charges on your credit card bill.*** Sometimes businesses or lenders make errors. These are usually corrected if you provide the right information. Save all your credit card receipts and compare them to the charges on your bill. If you find any charges you did not make, call the lender as soon as possible. If you promptly report a mistake or the unauthorized use of a lost or stolen card, your liability for these charges is limited by Federal law to $50.

Here are a few steps to help you protect your credit if your wallet has been lost or stolen:

- Cancel your credit cards. Be sure to keep the toll-free number for your credit cards in a secure place. For instance, put it somewhere other than your purse.
- Call your bank.
- Call the three credit bureaus and let them know your credit cards have been stolen. The bureaus will then flag your account. By flagging your account the credit bureaus will be placed on alert for any unusual activity in your account.
- If you think a crime has been committed, contact your local police.

Protect Yourself from Identity Theft

For more information on Identity Theft, please see that section of this workbook

An issue we face in the current information age is identity theft. Identity theft occurs when someone steals the name, social security number, date of birth and other personal information *(credit card numbers, insurance information or bank account numbers)* of another person and then uses it to establish new credit, run up debt or take over existing accounts. It ruins your good credit, leaves you with some else's bills, and creates a lot of headaches.

Consumers should be proactive about protecting personal information. Many legitimate businesses sell or share information about their clients without knowing how it will be used. Follow the instructions included in your bank or insurance company's ***Privacy Statement*** to prevent them from selling your name and personal information. Many people are now shopping online or by catalog. Instruct those vendors not to sell your information to other vendors. Did you ever wonder why you buy from one vendor and suddenly receive five new catalogs from other suppliers?

Following these simple tips can help you protect your good name and good credit:

- Immediately close bank accounts and establish new ones if your wallet or purse is stolen.
- Keep receipts, bank statements and credit card numbers in a safe place and shred them when you are ready to dispose of them.
- When making a credit card purchase, ask for the carbons if they are not using carbonless forms.
- Never give out personal information over the phone. This includes people who call you to solicit a purchase or a donation. Also, beware of people calling to ***confirm*** personal or financial information. If you are interested in making a purchase or sending a donation, get a phone number and address and verify the information with the **New Hampshire Attorney General** or your local **Better Business Bureau** to determine if the organization is legitimate.
- Review your credit card statements, utility bills and bank statements for accuracy or for any unusual activity. Immediately report any discrepancy.

Identity theft is a white-collar crime and most police departments do not have the resources to investigate each case. In fact, violators are caught less than 10% of the time. These criminals may be a part of a crime ring or may steal several identities and leave behind a trail impossible to unravel. Unfortunately, the victim may be left with a ruined credit history and the complicated and time-consuming task of regaining her financial good health and good name. According to the **Privacy Rights Clearing House**, the average identity theft case is $18,000. This does not include the cases where employment is secured using a stolen identity and employers may suffer additional losses.

Don't be a victim of crime. Awareness and proper handling of your personal information is key to protecting yourself from fraud and corruption. To receive more information on this topic or to file a consumer complaint, contact the Privacy Rights Clearing House hotline or website.

Credit Counseling

Credit counseling can be a wise option for someone with a poor credit history. Some credit counseling agencies also offer debt consolidation services. When looking for an agency, you should ask the following questions recommended by the **National Foundation for Consumer Credit (NFCC):**

- Is this agency a nonprofit organization?
- How much will these services cost?
- Are agency services confidential?
- Will they devise a plan tailored to fit my needs?
- Are the counselors certified?
- Are budget and credit education opportunities offered?
- Will my funds be protected?
- Is the agency accredited?

Bankruptcy

Bankruptcy is a legal way to relieve or completely eliminate debt under federal law. A person or business can file for bankruptcy voluntarily, or creditors can force bankruptcy. In any case, bankruptcy is an extreme measure, to be used only as a last resort.

After several years of declining numbers, bankruptcy filings recently have taken an upward swing. Recent world events are contributing to the number of individuals and businesses with serious financial problems who are seeking help through bankruptcy courts. Calls to credit counseling centers also are on the rise.

Almost 5% of United States homeowners are at least 30 days behind on their mortgage payments, and credit card delinquencies have risen to nearly 4% of all accounts. These are signs of serious problems, but bankruptcy may not be the right solution. While there are some benefits to bankruptcy, there are many negatives. Your own personal situation will determine which course of action will be most beneficial to you.

If you want to stop creditors from harassing you, filing for bankruptcy puts that into effect. It will not make them go away completely, however. Creditors will be represented in the bankruptcy court. A bankruptcy filing will have a negative impact on your credit record. Bankruptcy may not be the best way to avoid dealing with persistent creditors.

Federal and state debt collection laws protect you from abusive and harassing debt collector conduct. Contact the **Federal Trade Commission** for more information about laws protecting consumers from abusive collection practices. These laws stipulate when and how often collectors may contact you. If you have some income or assets you are willing to sell, you may be better off negotiating with your creditors. You may want to consult a lawyer, a bankruptcy service or a nonprofit credit counselor. There may be a charge for these services.

Filing for bankruptcy can discharge most of your debts or make it easier to deal with them through a repayment plan. Some loans may NOT be eligible for discharge, such as deferred student loans. While bankruptcy may seem to solve the immediate problem, it does not address the issues that led to your financial problems. It is extremely important that the problems resulting in filing for bankruptcy be resolved.

Types of Bankruptcy

Chapter 7 - A Chapter 7 bankruptcy, called a straight bankruptcy, can eliminate most of your debts and will require you to give up some of your assets. The bankruptcy court assumes legal control of your non-exempt property and the debts you owe. Nothing can be paid or sold without the court's consent. The court appoints a trustee whose primary duty is to assure that your creditors are repaid as much of their loan as possible.

At the end of the bankruptcy process, the court will discharge most of your debts and you will no longer owe your creditors. You will not be able to file another Chapter 7 bankruptcy for six years. The information will remain on your credit report for ten years from the date of discharge.

Chapter 13 - In a Chapter 13 bankruptcy, your debts are not discharged, but a process is established to repay them over time. This can be a good option when you owe back taxes or are behind in your mortgage payments. While your bankruptcy filing is pending, you will have to live within a strict budget established by the court. You must submit a repayment plan and some payments may be deducted from your wages.

A Chapter 13 bankruptcy generally remains in your credit file for seven years, although, in some cases, it may be 10 years. The court may require you to participate in a program to help you improve your money management and credit decision-making.

Making Good Credit a Reality

Assess

- ***Establish a good credit record early.*** You may not know when you will want to use credit for a big purchase such as a car or a home. Apply for a card, use it cautiously, and pay your entire balance on time.
- ***Take a good look at all of your outstanding debt and credit card balances.*** Take the National Foundation for Consumer Credit "Budget and Debt Test" to assess your potential for credit problems.
- Call one or more of the national credit bureaus to receive a copy of your credit report. If you have never received one, you may be able to receive a free copy.
- Call a local nonprofit credit counseling agency to ***find out how you can "get started" toward controlling your credit problems.*** Contact the National Foundation for Consumer Credit to find a member agency in your area.

Adjust

- ***Review your credit report annually.*** If there is any incorrect information, take steps to correct the errors as soon as you discover the problem. You have the right to include information to correct errors.
- If debt payments are a burden, ***find ways to reduce your monthly bills.*** Compare the finance charges on your credit cards. Close the accounts you have paid in full or the accounts with the highest interest rates. Bill consolidation is an option, but may have long-term costs.

Protect

- ***Be aware that credit problems may be a factor in other decisions about you.*** Your credit can impact your employment, getting insurance and renting or buying housing. When you need credit for a large purchase or an emergency, your credit will be reviewed.

Credit and Debt: Using it Wisely

- ***Credit problems can make investing for retirement difficult.*** Don't run the risk of losing your retirement because of short-term financial problems. Compare the costs and benefits of borrowing with the costs and benefits of investing. Seek professional advice to develop a long-term plan.
- As you get older, ***your medical expenses probably will increase.*** Make sure you are well prepared.
- ***Protect your personal information and financial identity*** from those who might use your information illegally. For more information on this critical protection, see the section of this workbook on ***Identity Theft.***
- ***Credit can be a useful tool for consumers.*** It is easy and usually safe. It is your responsibility to protect your credit use and positive credit history. Unless you are confident they will use the information appropriately, do not give your credit card numbers to anyone.

Want to Know More About Credit and Debt?

Federal Trade Commission (FTC) Consumer Response Center
1-877-FTC HELP, Trade Commission, CRC 240, Washington, DC 20580, www.ftc.gov

The Fair Debt Collection Practices Act
http://www.ftc.gov/os/statutes/fdcpa/fdcpact.htm

Equifax, 1-800-685-1111, P.O. Box 105496, Atlanta, GA 30348, www.equifax.com

Experian, 1-800-397-3742, P.O. Box 9556, Allen, TX 75013, www.experian.com

TransUnion, 1-800-888-4213, P.O. Box 1000, Chester, PA 19022, www.transunion.com

Free Credit Reports, http://www.ftc.gov/opa/2004/03/facta.htm
The FTC is proposing a rolling date for implementation of the *free credit report* act passed last December 2003. As it currently stands in draft form, individuals in the Eastern US would not be able to access their credit reports for free until Sept of 2005. See the link for more details. They are receiving public comment now and the proposed rule could change.

Better Business Bureau (directory of local BBB agencies), www.bbb.org

Privacy Rights Clearinghouse, Consumer Hotline: (619) 298-3396, www.privacyrights.org

National Foundation for Consumer Credit (NFCC), 1-800-388-2227, www.nfcc.org
NFCC *Budget and Debt Test* www.debtadvice.org/Credit101/credit101_07.html

WOMEN & MONEY

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Estate Planning

One of the realities of life is that we all don't live as long as we would like. Accidents happen, medical science has yet to find effective treatments for some common diseases, and unfortunately we don't always take care of ourselves. Along with this reality comes the need to prepare, in case something happens, for the welfare of those who may depend on us. This is one good reason why everyone should plan for financial responsibilities, and establish financial goals.

To many people, estate planning is an unpleasant topic and is fraught with mysteries and emotional issues. It can seem very complicated if you have many financial assets and if you are not prepared.

Your estate plan should consider the assets you wish to transfer to your spouse, children, relatives and others after your death. Your estate should be part of your overall financial plan. You should consider the advantages of provisions available to you by trust, gift and estate tax laws to transfer your assets to others. And, you will appreciate the peace-of-mind knowing that you have lessened the emotional and financial burden on those who survive you.

An estate plan is not a static document. As you will learn, a good plan will:

- Enable you to transfer your assets to others now or after your death.
- Help protect your family from financial hardship or tax liabilities.
- Be reviewed periodically to adjust your plan as you age, when life-changing events occur and when your financial responsibilities change.

Linda
55 Years Old
Married to John (54)
3 Adult Children
Nurse
Nashua

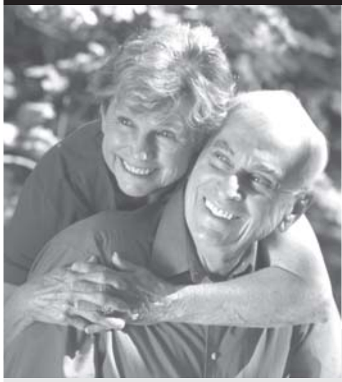
Estate Planning Case Study

Linda and John recently paid off the mortgage on the house they've lived in for their entire 33 years of marriage. With no mortgage payment and no school payments since the last of their children has finished trade school and moved out, Linda and John do not have many large expenses. John did purchase two jet skis to keep at their cottage in Wolfeboro that Linda inherited from her Aunt Louise. The cottage is titled in Linda's name alone. Both Linda and John intend to continue working until age 62.

Several months ago, Linda's youngest brother Jim (age 40) died in an automobile accident. Jim was single with no children and had assets no one knew about. Unfortunately, Jim did not have a will. Linda was appointed administrator of Jim's estate and has been working hard to track down all of her brother's assets. It has been a real challenge.

Linda wants to make sure that, if something happens to John or her, their affairs are in order. Linda has made an appointment with an estate planning attorney to begin working on a plan for their family.

Linda's Monthly Budget



INCOME	
Wages	$ 6,666
Interest Income	$ 500
Dividend Income	$ 300
Monthly Total	$ 7,466

SALARY WITHHOLDINGS	
Federal Income Tax	$ 600
401(K)	$ 1,083
Social Security/Medicare	$ 586
Monthly Total	$ 2,269

REGULAR CASH EXPENSES	
Groceries/Household	$ 300
Dining Out	$ 150
Entertainment	$ 120
Auto/Gasoline	$ 200
Prescriptions/Co-Pay	$ 40
Hobbies	$ 200
Clothing	$ 150
Monthly Total	$ 1,160

MONTHLY BILLS	
Property Taxes	$ 500
Home Owners Insurance	$ 200
Utilities/Water	$ 325
Telephone/Cell Phone	$ 60
Cable/Internet	$ 70
Auto Insurance	$ 140
Monthly Total	$ 1,295

CREDIT/DEBT PAYMENTS	
Credit Card	$ 120
Jet Ski Loan	$ 170
Car Lease	$ 300
Monthly Total	$ 590

SAVINGS FOR ANNUAL EXPENSES	
Life Insurance	$ 86
Disability Insurance	$ 24
Travel	$ 300
Gifts/Holidays	$ 150
Family Gifts	$ 150
Investments	$ 1,317
Monthly Total	$ 2,027

Linda's Family Worth

ASSETS	
Home	$ 61,400
Jet Skis	$ 12,000
Truck	$ 15,000
House	$ 180,000
Cottage	$ 110,000
IRA	$ 44,000
401(k)	$ 200,000
Life Insurance	$ 300,000
Mutual Funds	$ 178,000
Money Market	$ 45,000
Checking/Savings	$ 5,000
Total Assets	**$ 1,150,400**

LIABILITIES	
Jet Ski Loan	$ 11,000
Total Liabilities	**$ 11,000**
Net Worth	**$1,139,400**

Estate Planning

After reading as much as she could find about estate planning, Linda put together a checklist of things she can do to make sure that her assets and years of hard work are not lost if something happens to her. She is planning to review this list with her children and parents.

Will	Jennifer *(daughter)*	____________________
		____________________
	Jill *(daughter)*	____________________
		____________________
	Ryan *(son)*	____________________
		____________________
	Charities	____________________
		____________________

Executor	Karl Smith *(brother)*
Durable Power of Attorney	John *(husband)*
Review Date	January 1 *(each year)*
Location of Will	Safe Deposit Box
Insurance Policies	Copy in office desk
Insurance Agent	Smith Agency, Stratham
Attorney	Ben Williams, Greenland
Total Assets	$ 1,150,400
Total Liabilities	$ 11,000
Net Worth	**$ 1,139,400**

Estate Planning

Put together a checklist of things you can do to make sure the probate of your estate is not delayed or must undergo costly procedures if something happens to you. Review this list with your family annually.

Will	Heir	Assets
	____________________	______________________________
	____________________	______________________________
	____________________	______________________________
	____________________	______________________________
	____________________	______________________________
	____________________	______________________________

Guardianship ______________________________

Notarized with two witnesses ______________________________
____

Executor ______________________________

Durable Power of Attorney ______________________________

Review Date ______________________________

Location of Will ______________________________

Insurance Policies ______________________________

Insurance Agent ______________________________

Attorney ______________________________

Assets		Liabilities	
____________________	$__________	____________________	$__________
____________________	$__________	____________________	$__________
____________________	$__________	____________________	$__________
____________________	$__________	____________________	$__________
____________________	$__________	____________________	$__________
Total Assets	**$** __________	**Total Liabilities**	**$** __________

Estate Planning

Maybe it is time to start thinking about the inevitable. You will probably live a very long and happy life but sometimes things happen. You can be prepared for the unexpected and then enjoy your life with peace of mind.

The purposes of estate planning are to preserve the value of your financial assets and position them to be used effectively, minimize estate expenses and taxes, and provide for distribution of your assets after your death. For some, the writing of a will can solve most potential estate problems. For many, a more comprehensive plan including the establishment of a trust or gifts prior to your death may help reduce taxes and provide for heirs.

Ask Yourself:

- What financial responsibilities do I have that will continue after my death?
- Do I have financial assets and other property that I want to give to my family and friends?
- Will my family be burdened in the event of my death?
- What can I do to prepare my estate for the time that I will die?

There are seven basic objectives of estate planning. Consider them as you determine your estate planning goals.

- To maximize total family satisfaction.
- To provide for a young widow/widower and children.
- To provide adequately for you and your spouse, if married, during retirement years.
- To treat all children equitably, not necessarily equally.
- To maintain a business as an efficient and functioning unit.
- To provide liquidity to settle the estate.
- To maximize the amount remaining for distribution after estate settlement costs.

What is Your Estate?

Your estate is the total of your financial assets and liabilities at the time of your death. Your real property, investments, savings and other things of value are your assets. Your estate includes liabilities because your debts and obligations are generally paid before the residual is passed on to your heirs. Your estate may be fully or partially transferred directly to your spouse. If you are married, both spouses should plan the estate together to take full advantage of estate planning techniques. The primary tools of estate planning are wills, trusts, durable powers of attorney *(health care and financial)* and a living will.

What is a Will?

A ***will*** is a legal document that dictates how a person's estate is to be settled after death. In New Hampshire, any person over the age of 18 and ***under sane mind and under no constraint or undue influence*** can execute a will. You name an executor who will be responsible for carrying out the directions you make in the will, settling of debts, distribution of property, etc. If you have children under age 18, you will also name a guardian for these minors. A will may be either handwritten or typed.

The signing of a will must be witnessed by at least two other parties, both of whom should be neutral third parties, in order to be considered valid.

If a person has executed a legal will and he or she dies, the estate is said to be ***testate***. Without a valid will, an estate is said to be ***intestate***. The deceased person is the ***testator***. A will provides a guideline for the ***probate court*** to finalize the disposition of your estate. Probate is discussed later in this chapter.

A Will Can Help to:

- Provide for the financial support and care of your heirs.
- Distribute your assets as you designate to relatives or non-relatives.
- Provide for charitable distributions.
- Determine the executor of your estate.
- Help reduce costs of settling your estate.

What if There is No Will?

Without a will, the probate court will make decisions. When a person dies intestate, the laws of the State of New Hampshire dictate to whom, and in what proportions, such person's assets are distributed. These court decisions may not be the decisions you would have made if you had created a will.

- An administrator will be appointed by the court.
- You and your loved ones will have little or no say over the disposition of your estate.
- Guardianship of minor children will be determined by the court.
- State law will determine your beneficiaries.
- The time it takes and the cost to settle the estate may be much greater than if you had a will.
- Your spouse may receive a greater or lesser share of your property than you intended.

Your will is not etched in stone when you make it. You can change it whenever you want. Reasons for changes include births, deaths, marriages, divorces and relocation to another state, changes in the estate or tax laws, changes in your job or business, or simply changes in your priorities.

What is a Will Substitute?

A will substitute is a method of transferring property other than by will or intestacy, such as:

- Funded living trusts
- Joint tenancy with right of survivorship accounts *(JTWROS)*
- Transfer on death deeds for real estate
- Payable on death *(POD)* accounts
- Beneficiary designations of life insurance, pension plan, retirement accounts, annuities, etc.

What is a Trust?

A trust is a legal contract between the creator of the trust and a trustee, whereby the trustee holds the assets transferred to the trust for certain specified beneficiaries. The person who creates the trust is the grantor. The person or organization holding the assets is the trustee. The named recipients of the trust's assets are the beneficiaries.

There are many types of trusts, and each may be used for a different purpose. You can establish a trust for the sole purpose of taking care of another person, such as a disabled adult child. You also may create a trust to take care of yourself during your lifetime, and then to take care of others after your death.

You can ***revoke*** *(or change)* some trusts at any time, while others are irrevocable once made. Revocable trusts are often called ***living*** trusts. You can set up an ***irrevocable*** *(unchangeable)* trust for certain purposes. In this case, once property is placed in the trust for the benefit of the beneficiary, the grantor generally cannot take back the property.

A Trust Can Do Several Things:

- It can provide for a trustee to take care of you in the event of incapacity or disability.
- It can provide a trustee to take care of others you have named in your trust.
- If you die, the trust may avoid probate of the assets in the trust and facilitate a faster distribution of the assets to your beneficiaries.
- For married couples, a trust may help avoid or delay estate taxes on an estate exceeding a certain amount.

Not everyone will benefit from having a trust. Trusts can be costly and complex. For some people, the expense may be more than it will cost to have their property administered through probate after their death. Trusts must be formally administered and conform to certain laws. The trust must be drafted, properly signed and, if the purpose of the trust is to avoid probate, all assets must be transferred into the trust. Any assets not put into the trust will go through probate if other arrangements have not been made. You appoint a trustee to administer the assets of the trust. The trustee may require a fee. Being a beneficiary of a trust may impair a person's ability to be eligible for Medicaid, a government benefit that pays for nursing home care.

If you are thinking about establishing a trust, it is advisable to seek professional guidance to consider the various advantages and disadvantages and to have it properly prepared.

Living Trust

A living trust is a trust created during your lifetime. The person who manages the trust is called the trustee. The person for whose benefit the trust is being managed is called the beneficiary. The same person can be grantor, trustee and beneficiary. You can set up a trust with yourself as trustee, or you can designate someone else to serve as trustee to manage the assets for you.

Although a living trust can be a substitute for a will, it is necessary even with a living trust to have a **pour-over will**. A pour-over will ensures that any assets not transferred into the trust during your lifetime are placed, or *poured-over*, into the trust upon your death.

Durable Power of Attorney

A durable power of attorney is a legal document that enables an individual to designate another person, called an attorney-in-fact, to make financial decisions for the individual in the event of disability or incapacitation.

It is generally advisable to have a durable power of attorney in addition to having a living trust.

Probate

Probate is the legal process of paying all debts and taxes of a decedent's estate and distributing the remaining property of the estate to the beneficiaries.

The vast majority of Americans die without a will and the consequences vary greatly. Every adult should have a will, especially as assets and family obligations increase. It is crucial for parents with minor children to name a guardian and make arrangements for financial support of children in their will.

One key decision is to identify the executor of the estate. This person will act on behalf of the estate to settle all debts and distribute all assets according to the instructions in the will. Probate may be costly, including attorney fees, appraisal fees, executor fees, and court costs.

The probate process may be long and is subject to public disclosure. The process can take many months, even when there are no objections to the will and the estate is uncomplicated. If the estate is large, or if there are significant problems such as estate tax controversies or attempts to challenge the will, it can take years.

What Does an Executor Do?

The executor of an estate is the individual or organization named in a will and/or appointed by a court to settle the estate of a deceased person.

- The executor collects, protects and manages the assets during the administration of the estate.
- The executor inventories all assets and liabilities of the estate.
- The executor signs the petition for the probate process identifying the heirs and the provisions of the will.
- The executor formally notifies each heir and beneficiary that the will is in probate.
- The executor settles all of the estate's accounts by paying debts and taxes.
- The executor distributes the remaining assets to beneficiaries and makes a final accounting of the estate to the court.

Estate Settlement Costs

Settlement of an estate may impose several different kinds of costs. In the planning process there may be expenses for the services of an estate planner and/or an attorney. With the settlement of an estate will come administrative costs for an executor, attorney, appraisals, probate, and court fees. Every estate will incur some administration costs. The probate process is a court procedure for settling the personal and business affairs of a decedent by formally proving the validity of a will and establishing the legal transfer of property to beneficiaries. After all assets are assessed and distributed to the heirs, the estate is closed.

Estate Taxes

Federal estate taxes currently range from 45% to 48% on net worth over $1.5 million including investments, real estate, retirement plans and life insurance. The first $1.5 million is ***excluded*** from taxation. Under the 2001 Taxpayer Relief Act, the exclusion will gradually increase to $3.5 million in 2009. The maximum tax rate will gradually decrease to 45% by 2007. Under current law, in 2010 the federal estate tax will be eliminated, but will be reinstated if Congress fails to extend the repeal by 2011.

One important provision of the estate law is the ***marital deduction.*** Assets that are transferred from one spouse to another are not taxed at the time of the first spouse's death. The transferred assets are added to the surviving spouse's estate, and any excess over the exempt amount may be taxed as part of the second spouse's estate. Post-death charitable contributions can eliminate assets from the taxable amount. For many, the 2001 Taxpayer Relief Act simplified the estate tax process.

Gift Taxes

Under current law, annual gifts up to a maximum of $11,000 (for 2004 and indexed in $1,000 increments in future years) can be made to as many people as you wish without reducing your lifetime limit *(the* ***annual exclusion amount****)*. Transfers between husband and wife can be unlimited and do not impact these amounts. There is a lifetime limit of $1 million of gifts that exceed the annual exclusion amount that can be made without paying tax. A married couple can make a gift of up to $22,000 (in 2004) tax-free to as many people as they wish *(a* ***split-interest gift****)*.

With a number of people receiving gifts within the annual exclusion, over time much property can be removed from the estate without reducing a person's lifetime gift limit. To qualify for the annual exclusion, the gifts must be made without any use restrictions. Any gift over the annual exclusion amount in a year reduces the donor's lifetime $1 million gift limitation. Once a person's lifetime accumulated gifts exceed $1 million, gift taxes must be paid. Currently, the tax rate that applies is dictated by the estate tax rates. In 2010 and beyond, a flat tax rate of 35% will apply to those gifts.

Property included in the gross estate for New Hampshire taxes includes the decedent's share of all property, insurance proceeds payable to their estate, property given away by the decedents during their lifetime in which they kept some interest, annual gifts in excess of $11,000 to one person within three years of death, one-half of the value of property owned with a spouse in joint tenancy with rights of survivorship, or any portion of other property owned in joint tenancy contributed to the tenancy by the decedent.

Allowable deductions from estate taxes include debts and other claims against the estate; funeral expenses; costs of administering the estate; losses from fire, storm, and other casualty or theft during the settlement of the estate; the amount of money or property left to charitable, religious, and educational organizations; or the amount of money or property passing without reservation to a surviving spouse that qualifies as the ***marital deduction.*** For estates where death was on or after January 1, 2001, there is a deduction of up to $675,000 for the decedent's qualified interest in a family-owned business.

Marital Deduction

There is an unlimited deduction between spouses. Any amount you leave to your spouse transfers free of federal and New Hampshire estate taxes. This may make the surviving spouse liable for taxes. Your estate planning advisors can help you decide whether it makes sense for you to leave some property to a trust, life estate or other heirs. They also can help you decide which property to leave, and whether to use a trust or life estate, or leave it to others.

One of the basic principles of reducing estate taxes and settlement costs for large estates is to balance the size of the estates of a married couple. That is, to transfer assets between the husband and wife so they both have a comparable amount of property. One of the tax planning objectives for people with large estates should be to keep all of a couple's wealth from ending up in the surviving spouse's estate and being subject to federal estate tax.

One way to minimize the problem is to have both spouses own a similar amount of property. Whoever dies first can use a trust or life estate, or will property to other heirs so all the couple's assets will not end up in the surviving spouse's estate.

Be Prepared for the Unexpected

Assess

- List the assets and liabilities that will be part of your estate.
- Consult an attorney to prepare a will.
- Select an executor for your estate and guardians for your children, if applicable.
- Communicate with your executor and explain your wishes.
- Explore methods by which you can transfer your assets to your loved ones, charities or others with reduced tax liabilities.

Adjust

- Review your will and estate plans at least every three years or in the event of any significant change in your family or financial situation.
- As you accumulate more assets, be aware of options for surviving spouse benefits and tax consequences.
- Implement a plan to transfer assets to your spouse, children or other heirs.
- As you age and the state of your health changes, reevaluate your plan and make appropriate changes.

Protect

- Be sure your estate plan protects your assets and your dependents from unnecessary worry or expenses.

Looking for More Information About Estate Planning?

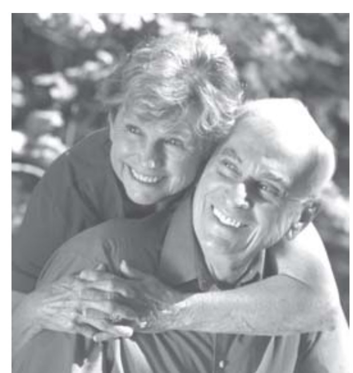
MSN Money, Estate Planning for Everyone
http://moneycentral.msn.com/Content/Retirementandwills/Planyourestate/Planyourestate.asp

New Hampshire State Bar Association
Consumer Resources, www.NHBAR.org

New Hampshire Society of Certified Public Accountants
www.NHSCPA.org

New Hampshire Estate Planning Council
www.NHEPC.org

WOMEN & MONEY



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Home Ownership

Home ownership is the American Dream. For many, it is a sign of success and a source of great pride. For others, it is a good financial decision with tax advantages, and an investment. No matter what the reason, home ownership can be an attainable goal for almost everyone.

There are many steps to determine your housing needs and financial ability to purchase a home. The first thing to do is to decide if you are ready for the responsibilities of home ownership. Yes, owning a home includes many responsibilities and additional expenses, but the benefits may outweigh the drawbacks. There are a lot of things you can begin to do right now to prepare for this big decision.

You can enhance your ability to purchase a home by setting a goal, establishing a saving plan, and improving your credit record. You can investigate the many resources available in your community to help you prepare for and navigate the home-purchasing process. Start preparing now and, when you are ready, home ownership will be an achievable goal.

- You can assess the benefits of home ownership.
- You can adjust your current spending and saving plans to achieve your goal.
- You can protect your home investment through planning and risk management.

Geneva
36 Years Old
Divorced
1 Child, Nikki (6)
Police Dispatcher
Concord

Home Ownership Case Study

Geneva has reached the time when her job is secure. Nikki, her 6-year-old daughter, is doing well in school, and Geneva just paid off the last of her credit card balance. Now that everything is looking pretty good, she has some time to think about the future.

Geneva is an independent person, willing to set goals and take risks to achieve them. Lately, she has been thinking about moving into a house, but she doesn't like the idea of paying so much for a place to live. Should she buy a house? Can she afford to buy a house?

Geneva has not been able to save much money because of her credit card debt, but now she can put a little money away. Buying a house will require a down payment. It also means other financial obligations that she does not have as an apartment renter.

For most people, the purchase of a home will be their largest and most complex financial decision. The decision to buy a home, rather than rent, is a major decision dependent on many factors. Home ownership, while regularly praised for its advantages, is not for everyone. Many people, either for financial or lifestyle reasons, may be limited to, or may prefer, renting.

Let's evaluate Geneva's finances and her preferences to determine if she's a good candidate for home ownership.

Geneva's Monthly Budget

INCOME

Salaries	$ 3,040
Part-time Work	$ 600
Interest	$ 42
Monthly Total	$ 3,682

REGULAR CASH EXPENSES

Groceries/Household	$ 230
Dining Out	$ 100
Entertainment	$ 50
Dry Cleaning	$ 36
Auto/Gasoline	$ 80
Personal Care/Hair	$ 25
Prescriptions/Co-Pay	$ 10
Clothing	$ 30
Monthly Total	$ 561

SALARY WITHHOLDINGS

Federal Income Tax	$ 457
Social Security/Medicare	$ 278
Union Dues	$ 38
Life Insurance	$ 15
Tax Sheltered Annuity	$ 100
Monthly Total	$ 888

MONTHLY BILLS

Rent	$ 850
Heat/Electric	$ 125
Telephone/Cell Phone	$ 45
Cable/Internet	$ 40
Auto Insurance	$ 50
School Lunches/Supplies	$ 80
After School/Summer Care	$ 375
Monthly Total	$ 1,565

SAVINGS FOR ANNUAL EXPENSES

Car Repairs	$ 20
Medical/Dental	$ 30
Vacation	$ 30
Gifts/Holidays	$ 20
School/Sports Fees	$ 25
Renter's Insurance	$ 15
Emergency Fund	$ 25
Evening College Tuition	$ 240
Nikki's College Fund	$ 50
Monthly Total	$ 455

Geneva's Family Worth

ASSETS

Tax Sheltered Annuity	$	38,492
Car	$	10,000
Jewelry	$	1,400
Savings Account	$	1,355
Nikki's College Fund	$	2,568
Total Assets	**$**	**53,815**

LIABILITIES

VISA Card Balance	$	110
Furniture Store Loan	$	985
Auto Loan Balance	$	7,420
Total Liabilities	**$**	**8,515**
Net Worth	**$**	**45,300**

How Much Mortgage Can Geneva Qualify For?

See how much of a mortgage Geneva *(or you)* will get based on the following monthly mortgage amounts. Please note that these are estimates only, and that taxes, insurance, PMI *(Private Mortgage Insurance)* and other costs will differ from property to property. Mortgage amounts are estimates; please use a calculator for exact figures.

Monthly Mortgage Payment
(Principal, Interest, Taxes, Insurance and PMI)

$ 1,000 per month	$ 1, 200 per month	$ 1,500 per month
$ 250 taxes	$ 275 taxes	$ 300 taxes
$ 40 insurance	$ 40 insurance	$ 45 insurance
$ 100 PMI	$ 110 PMI	$ 130 PMI
$ 610 for loan itself	$ 775 for loan itself	$ 1,025 for loan itself

(Mortgage amount that payment will get you)

How Much Mortgage Can Geneva Afford?

	Example 1	Example 2	Example 3
1) Total Monthly Payment (PITI)	$ ______	$ ______	$ ______
2) Minus monthly property taxes	$ ______	$ ______	$ ______
3) Minus monthly property insurance	$ ______	$ ______	$ ______
4) Minus monthly PMI	$ ______	$ ______	$ ______
5) Minus monthly condo/association fees	$ ______	$ ______	$ ______
6) Maximum monthly payment for Principal and Interest (P&I)	$ ______	$ ______	$ ______
7) Divide by your Interest Rate Factor	______	______	______
8) Mortgage You Qualify For:	$ ______	$ ______	$ ______

Directions:

1) Enter the amount you think you can afford each month for your **Total Monthly Payment** *(including taxes, insurance, PMI, condo or park fees)*. Please note that a lender may qualify you for more or less than your 'desired monthly payment' based on your income, your monthly debt payments, your credit history and the lender's specific underwriting guidelines. It is wise to spend no more than 33% of your gross monthly income on your mortgage.
2) Enter the estimated **Property Taxes** for your home. Property taxes vary widely from community to community and home to home. You should allow for between $200 and $600 monthly, depending on the value of the property you intend to buy *(i.e., $200 if you plan to buy a home for $125,000, $600 if you plan to buy a home for $300,000)*.

3) **Property Insurance** varies from home to home, but you should allow between $25 and $60 per month depending on the home's value.

4) If you put down less than a 20% down payment on your home, you will probably have to pay **Private Mortgage Insurance** or PMI *(some government loans do not require PMI)*. You can figure approximately $100 to $200 per month on PMI depending on how much you put down and how much your total mortgage is.

5) If you plan to buy a condominium, you will have to pay a monthly **Association Fee**. Typically, a newer condo requires a monthly fee of $150 to $250.

6) Once you have subtracted all the non-mortgage costs from your monthly payment, what's left over is the amount that can go toward paying the principal and interest on the **Mortgage Loan** itself.

Interest Rate	30 Year Factor
4.5%	.005067
5.0%	.005368
5.5%	.005678
6.0%	.005996

7) To determine the loan amount you will qualify for, it is best to use a mortgage calculator, but you can also use our table *(left)*. Find the **Interest Rate** in the table that you think you will get *(today's interest rates are around 5.5%)*. Next, divide your monthly payment by the corresponding **30-year Factor** from the table.

8) Voila! You now know how much of a **Mortgage** you qualify for. Don't forget to add the amount you can put toward a **down payment** to find out how much *house* you can shop for.

Home Ownership

Purchasing a home is the largest purchase most people will make. The process involves numerous decisions, a thorough look at your financial and personal life, and many new and possibly unexpected expenses. The alternative, of course, is to rent a home—be it an apartment, condominium or house—from someone else.

Either you can make the investment in your own home, or someone else can benefit from the investment and you can keep the benefits of renting. There are a lot of questions to answer before you make this important decision. The first step is to assess whether home ownership is for you.

Ask Yourself

- Am I ready for the responsibilities of home ownership?
- Would I rather enjoy the freedom of renting a home?
- Am I willing to sacrifice some spending today to save for a down payment?
- Do I know what I really want in the home I want to purchase?
- How long do I plan to work and live in the area where I currently reside?

What Kinds of Decisions Will You Have to Make?

Home buying is a great example of the need for short-term decisions and long-term planning. In the short term, there are many things you can do to prepare for the purchase. First, there is the down payment. Some government loan programs require as little as 1% of the purchase price as a down payment. Traditionally, when purchasing with a conventional loan, the down payment can be up to 20%. Saving for a down payment requires commitment and giving up some other things you want.

Next, there is the establishment of a good credit record so that you will be eligible to borrow the 85-99% of the purchase price you will pay over the next 15 to 30 years. Making timely payments on your mortgage will be a big plus on your credit record, but it will take a good record for a bank to make the loan.

Also in the short term there is the work you will have to do to find the right home. Working with a real estate agent may be very helpful, but remember that he or she will earn a commission on the sale. Although the agent normally is paid out of the purchase price, the purchaser is the one who pays it. Most of the technical work, such as the title search, legal documents, inspections, etc., to purchase a home will be done by professionals, and will be included in your closing costs.

In the long term, there is the commitment to owning a home. A mortgage is a contract. Your obligation is to pay the monthly payment, taxes and insurance. Until you sell the home or the loan is repaid, you are financially responsible for the payments. Falling behind on your mortgage payments will have serious consequences, up to and including loss of the property. Your home may be a very good investment, increasing in value as you own it.

Why Rent?

- Renting, an agreement to use a house or apartment for a specified period of time and payment, does not require a large payment ***up front.*** Home loans can require up to a 20% down payment although that is unusual today. For a house sale of $100,000, you may be required to make a down payment of $10,000 or more plus closing costs. Some government loan or guarantee programs allow smaller down payments. More information about government loan programs is provided later in this section.
- Home ownership can be expensive. A renter does not usually have to pay to replace worn-out appliances, maintain the outside premises, or pay for regular maintenance such as painting or utility problems. A homeowner does. If the hot water heater stops working, the property owner is responsible for its replacement. Homeowners often buy many appliances and tools, such as lawn mowers, water hoses, tools, washers, paint, painting equipment and curtains to maintain or decorate their homes. They also may purchase a variety of maintenance services.
- Home ownership is, most often, a long-term decision. The transaction costs *(real estate agent commission, loan fees, legal expenses, taxes, paperwork, etc.)* of buying and selling a home are significant. Those who move often may not be able to recoup these costs. Thus, a person who moves often may be better off renting.
- Renting may provide more freedom to change your lifestyle or your personal goals. If you don't like living in one place for at least a couple of years, maybe you're better off renting. Ending one rental agreement *(on the termination date)* and entering into another can be easy and accomplished quickly. Apartments come in many sizes, qualities and price ranges, with many amenities. An apartment complex may have a swimming pool that would be too costly for an individual homeowner to purchase, install and maintain.
- Even if you have the money for a down payment, there are many other things you can do with your money. A $10,000 deposit in an investment account earning 6% annually will become $20,000 in 12 years. If property values do not increase, money in the bank may be a better investment than real estate.

Why Buy?

Buying a home may be the largest and most beneficial financial decision you make. Renters make a payment each month, but do not have equity in the property. This means they do not have ownership of the asset they are paying to use.

- Homeowners, while they may owe a large sum to a mortgage lender, acquire an equity interest in the house equal to the difference between the market value of the home and the amount they owe. If a home is worth $100,000 on the real estate market and the mortgagor owes $70,000, the equity is $30,000. Any increase in the market value of the home, for a variety of reasons, adds to the owner's equity. Of course, if the market value decreases, so does the owner's equity. Home ownership equity is an asset in determining net worth. So, why buy?
- While the majority of the mortgage payment goes toward the finance charges in the early years, some of the payment goes to reducing the principal of the loan and adds to the owner's **equity**. Part of the payment also may go into an escrow account for insurance and property taxes. Whether a monthly payment for rent, or for a mortgage, is higher or lower depends on the consumer's choices of price, benefits, amenities and lifestyle. To rent a large apartment with a pool and a health facility in a very desirable neighborhood may cost more than the mortgage payments on a medium-size house in a nearby neighborhood.
- While renters pay for taxes and other services as part of their rent, homeowners have more control over how their money is spent. If the homeowner does not use the swimming pool, they do not help pay for it. However, a renter can choose to live in an apartment that does not have a swimming pool.
- Homeowners can take advantage of **tax deductions**. Interest payments on mortgage and real estate taxes are deductible and can significantly reduce taxable income. For example, at an income tax rate of 28%, a real estate tax payment of $1,000 is effectively reduced to $720. Mortgage interest payments of $6,000 in a year can reduce federal income taxes by $1,680. Of course, the amount each family may save is dependent on their individual tax status, state laws and filing method.
- There is something reassuring about owning your own home. You are not living under rules set by others or forced to behave in certain ways. You decide how to decorate and how to use the physical space. It just feels good to call something *"mine."*

What Kind of Home Do You Want?

Everyone can picture his or her dream house. The reality is that few people buy their dream home the first time around. Start with a list of what you want. List everything you want, including things like:

Three bedrooms, two baths, quiet neighborhood, garden area, no major repairs needed, near friends and family, close to shopping, two stories, lots of natural light, a two-car garage, resale potential, low taxes, laundry room, walk-in closets, storage space, gas furnace and stove, a back deck or patio, close to work and school, finished basement, hardwood floors, French doors leading to the backyard, and close to public transportation.

Now, take another look at the list. You probably can't have it all. List the items you would choose if you could have only 10 of them. What are your priorities? When you start looking at houses, give your top ten list to the real estate agent.

How About a Condo?

Consider a condominium, townhouse or home in a Planned Unit Development *(PUD)*. You may avoid the costs and hassle of exterior maintenance, but you are very likely to incur association fees. Association fees help cover the expense of common areas such as roofs, driveways, garages, snow removal, and other areas common to all residents of the development. This can be a substantial amount in addition to your mortgage payment.

What Can You Afford?

A simple calculation will give you a ball park figure of what you can afford. The typical advice is that monthly payments should be 28% to 36% of your monthly gross income.

1. Write down your monthly income before taxes.
2. Divide that number by four.
3. From that number, subtract the total amount you pay per month in debts *(loans, charge accounts, and the like)*.

4. The result will be the lower end of what you can reasonably afford to pay on a monthly basis.
5. After deducting estimated monthly homeowners insurance and property tax payments, you will have an approximation of what you can afford for your monthly *(loan)* payment.
6. To find out what price house you can afford, multiply the previous figure by 12 months.
7. Divide that by the average current interest rate on mortgage loans.

The result is the approximate market value in your price range.

How Much Mortgage Can You Qualify For?

See how much of a mortgage you will get based on the following monthly mortgage amounts. Please note that these are estimates only, and that taxes, insurance, PMI and other costs will differ from property to property. Mortgage amounts are estimates; please use a calculator for exact figures.

Monthly Mortgage Payment
(Principal, Interest, Taxes, Insurance and PMI)

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$ 250 taxes	$ 275 taxes	$ 300 taxes
$ 40 insurance	$ 40 insurance	$ 45 insurance
$ 100 PMI	$ 110 PMI	$ 130 PMI
$ 610 for loan itself	$ 775 for loan itself	$ 1,025 for loan itself

(Mortgage Amount that payment will get you)

@ 4.5% interest	= $ 120,400	= $ 153,000	= $ 202,300
@ 5.0% interest	= $ 113,600	= $ 144,400	= $ 190,900
@ 5.5% interest	= $ 107,400	= $ 136,500	= $ 180,500
@ 6.0% interest	= $ 101,700	= $ 129,300	= $ 171,000
@ 6.5% interest	= $ 96,500	= $ 122,600	= $ 162,200

- A $50,000 loan at an 8.5% interest rate for 30 years will require payments of $384.
- A $75,000 loan at a 7.5% interest rate for 30 years will require payments of $524.
- A $75,000 loan at an 8.5% interest rate for 30 years will require payments of $577.
- A $100,000 loan at a 7.5% interest rate for 30 years will require payments of $699.
- A $100,000 loan at an 8.5% interest rate for 30 years will require payments of $769.

Additional Home Ownership Costs

Remember that insurance and taxes may be an additional $100 to $200 per month. You also should figure the following into your budget.

- Closing costs *(including points and loan fees)*, inspections, and legal expenses
- Local and school property taxes
- Homeowners insurance
- Repairs and upkeep *(A furnace will last 12-14 years.)*
- Lawn mowers, shovels, rakes, hoses and other tools to maintain your home

Your dream house may be two or three houses into the future, so don't feel like you have to spend every penny you can afford if it means giving up too much. For more information about first-time home buying, contact **Fannie Mae** or the **New Hampshire Housing Finance Agency.**

The Down Payment

The biggest hurdle to buying a home, other than finding the right house at the right location and with the right design, is making the required down payment. Depending on the lender, the down payment requirement will range from 5% to 20%. Government loan guarantee programs, such as the **Federal Housing Administration** *(FHA)* or the **New Hampshire Housing Finance Agency** *(NHHFA)*, may require as little as 3% down. These loans are guaranteed by a quasi-governmental agency and are typically available to lower-income or first-time homebuyers.

Commercial lenders will require between 10% and 20%, depending on the situation. Usually, a down payment of less than 20% means the borrower must purchase mortgage insurance. It pays to shop around for a mortgage. Of course, your income is the critical factor that determines your ability to make monthly payments.

The Federal National Mortgage Association, or ***Fannie Mae,*** is an agency that helps banks expand their offering of mortgage lending to a wide variety of consumers. Fannie Mae has guidelines for lenders to use when evaluating an applicant's ability to repay a loan. Shopping for a mortgage loan is time consuming but is worthwhile. Although most lenders offer similar interest rates, each has different costs and conditions that produce different annual effective percentage rates. Government loan programs with lower interest rates, down payments and costs are available. A variety of organizations, such as banks, savings and loans, credit unions and mortgage companies lend to homebuyers. Mortgage brokers will assist buyers in finding a mortgage lender.

Get the Right Mortgage Loan

Something to remember, whether you purchase for the first time or refinance, is that a lender will consider the following criteria:

- **Collateral —** The value of the unit you are purchasing becomes collateral. Its value backs the loan. If you cannot make the mortgage payments, the lender will always have the value of the home to cover the liability.
- **Capacity** — Your ability or capacity to make the mortgage payment is critical. A lender will look at your monthly income and debt to determine what mortgage payment *(principal, interest, taxes, property insurance and private mortgage insurance)* you can afford.
- **Character** —What is the lender's risk? Do you have a steady employment history? Have you met your previous obligations?
- **Credit —** This means your creditworthiness. Do you have a good history repaying your debts? Your credit score – credit use, outstanding balances and past problems—will be evaluated very closely.

Guarding against identity theft during the mortgage application process:

- Before you reveal any personal financial information, find out how it will be used and whether it will be shared with others. Ask if you have a choice about how they will use your information. Will they keep it confidential?
- Do not give personal information over the phone, through the mail, or over the Internet unless you have initiated the contact or know with whom you are dealing. Legitimate organizations with whom you do business have the information they need and will not ask you for it.
- Order a copy of your credit report from each of the three major credit reporting agencies every year. Make sure it is accurate and includes only those activities you've authorized.

Recognizing the Strategies of Predatory Lenders

In today's lending market, more and more people can qualify for a home loan or equity line of credit. However, some unscrupulous lenders and brokers take advantage of borrowers by providing costly and inappropriate loans . This is known as predatory lending. While predatory lending can be found in all type of loans, it generally happens in the subprime loan market.

Subprime lending involves loans to consumers who do not meet standard lending criteria, either because of previous late payments, bankruptcy filings or an insufficient credit history. These loans are priced according to risk, with higher interest rates or higher fees than standard credit products. This lending market allows individuals who would not otherwise be able to purchase a home to find financing. While subprime lending is not bad in and of itself, it becomes a problem when predatory lending practices become part of the deal.

The following are examples of strategies used:

1: Selling the Monthly Payment

When dealing with loans, it is a mistake to focus exclusively on the monthly payment—it's not the whole story. Of equal or greater significance are: What is the loan's interest rate and other finance charges as shown by its **annual percentage rate** *(APR)*? How long will it last and how much will it cost in total payments? Will the regular monthly payments pay it off, or is there one large *(balloon)* payment at the end? Is there a risk of the interest rate going up, and how will that affect the monthly payment? In addition, when comparing claims of savings over your current mortgage payments, include the cost of setting aside the property taxes and home insurance if these costs are currently part of your monthly payments. Otherwise, it's comparing apples to oranges.

2: Flipping by Repeated Financing

This strategy usually targets a person who already has been overcharged by the same lender or broker. It is an offer to refinance a high-cost/high-rate loan at a slightly lower rate than the one they arranged for the borrower within the past year or so. Since the initial loan's interest rate is needlessly higher than the one the borrower could qualify for, the borrower is soon contacted and urged to refinance. The catch is that the borrower again is charged, or more likely overcharged, for all the loan origination fees, broker fees, points and other closing costs. The effect is that the consumer, who initially sought to borrow, for example, $50,000, and ended up borrowing $55,000 in order to finance the $5,000 in fees associated with the first loan, is now borrowing $60,000 since the same $5,000 in loan costs are again being charged. The consumer is now carrying an additional $10,000 in debt just to get the loans.

3: Growing the Debt

Upstreaming and wrap-arounds are efforts by lenders to grow the debt. Having borrowed a small amount to purchase an appliance or another consumer good, consumers are approached by the lender about borrowing more money. This usually ends up with the lender having the consumer refinance her mortgage and add in all their consumer debt for one loan payment secured by their home. While debt consolidation can have advantages, there often are serious risks as well. First, changing regular consumer debt into a mortgage loan means non-payment can now result in foreclosure and the loss of your home. Second, the monthly ***savings*** from a lower payment as a result of a mortgage consolidation or equity consolidation loan will be lost quickly if you run up debt on the credit cards you paid off.

Home improvement schemes also can lead to growing the debt. High-pressure door-to-door salespersons urge homeowners to make expensive home improvements, which are funded through a connected lender. But instead of financing only the cost of the home repair, they seek to refinance the whole mortgage and add in the cost of the repair. The reason is that a loan origination fee of, for example, 2%, is worth a lot more if the loan is for $55,000 than for $5,000. The problem is that this "growing the debt" can result in situations where, for example, you are paying $6,000 in points and other loan fees to refinance the whole loan in order to get the $5,000 you need to pay for the home improvement. Suddenly, a $5,000 project costs $11,000.

4: Equity Stripping

Equity stripping is when the lender is depending more upon the value of the property to repay the loan than on the borrower's actual income or ability to repay the loan. As long as the value of the home at a foreclosure sale exceeds the amount of the loan, the lender will be made whole. Meanwhile you, as the borrower, will be left without a home when you default. Sometimes, borrowers are encouraged to overstate their income in order to qualify for the loan. This is illegal, and cannot change the fact that the loan payments remain beyond the borrower's ability to repay.

5: Over-Inflating the Appraisal

Appraisals are undertaken by the lender to make sure the value of the property will likely pay off the loan in the event the borrower defaults. Their purpose is to protect the lender, not necessarily you as the borrower. If the initial appraisal indicates the home does not have enough value to support the loan, the mortgage broker might suggest that another more "friendly" appraiser come in to take a second look. While it might seem like an inflated appraisal is to your benefit, it does have its downside, particularly in the subprime market. The greater the alleged value of the property securing the loan, the higher the fee of the broker or lender and the more the consumer pays. *(i.e. 5 % of $55,000 is greater than 5% of $45,000)*. Similarly, if a broker can get a lender to loan $60,000 when you are seeking only $45,000, the extra cash can be used as an inducement to go forward with the loan while being a vehicle to pay additional fees, in effect splitting the windfall. You, for example, get an additional $7,500 in money to do what you like, while $7,500 in fees is tacked on to the loan to be financed. Second, an overinflated appraisal makes it difficult to refinance the loan later through a lower-rate mortgage. Then, if your credit improves or rates drop and you wish to refinance, it may be impossible to find another lender. Thus, you become locked into a subprime loan.

6: Insurance Packing

Credit insurance is a highly profitable product for most mortgage lenders; therefore, some lenders push borrowers to buy such products. Consumers need to shop around and see if other lenders offer better terms, or determine if existing insurance coverage they have would already accomplish the same purposes. Multiple credit insurance products may be offered to some consumers where they are unneeded or unsuitable. Credit life insurance, credit disability insurance, and credit unemployment insurance are the most common forms of credit insurance. For example, it would be wholly inappropriate for a nonworking retired senior citizen who is refinancing his or her house to purchase credit unemployment insurance.

7: Trapping the Mark

For a borrower in the subprime loan market, the goal should be to re-establish one's credit and, if possible, refinance the loan at a much lower rate. Large prepayment penalties can hinder refinancing, as can borrowing based on an inflated appraisal. A subprime consolidation loan with a balloon payment also can be a credit trap if borrowers fail to change their spending habits and then run up the same credit card debts they had initially paid off. The effect of these loan terms, especially when combined with unreformed spending habits on the part of the consumer, ensure the consumer will remain trapped in the subprime, high-rate/high-cost mortgage market.

Information on predatory lending provided by the **Federal Trade Commission** and the **New Hampshire Attorney General's Office.** Please see *Want to Know More* at the end of this section for contact information.

Already Own a Home and Thinking About Refinancing?

With the exceptionally low interest rates over the last few years, many homeowners have chosen to refinance their homes. Refinancing means to take out a new loan, hopefully at a much lower interest rate, and pay off the old mortgage. Generally, people refinance their homes for one of these reasons:

- It may be an opportunity to shorten the term of their mortgage.
- With a lower interest rate, the monthly payment can be substantially lower.
- By refinancing for more than the existing loan balance, a homeowner can have extra cash to remodel, add-on or do a variety of other things.

Refinancing Rules of Thumb

- You must have enough equity in the house to refinance. Lenders have different requirements for the amount of equity required. Generally, you will have to have at least 10% equity.
- Inquire if closing costs and other fees can be rolled into the new loan.
- Unless there is a prepayment penalty clause in a mortgage, you can refinance anytime.
- Be cautious of the amount of fees charged—especially mandatory insurance coverage.
- Determine how long you plan to remain in the home and it will help determine if you should refinance your current mortgage.

Selling Your Home – Lots of Choices

- **Use a Realtor vs. Sale by Owner—**Using a realtor will provide more exposure to potential home buyers. Without a realtor, you must be able to negotiate the sale price yourself. Fees to the realtor will be between 5% and 10% of the sale price of the home.
- **Curb Appeal**—Spending a little on the yard and paint may help sell the house more quickly. Neutral colors are more desirable when showing a house. You have to appeal to a wide variety of people’s tastes.
- **Maintenance—**Of course, the roof, plumbing and electrical wiring must be in good working order. You will have to disclose any known structural or mechanical problems. Repair costs may be subject to negotiation between the buyer and seller.
- **Price—**There is, perhaps, no bigger decision to make. If the asking price is too high, it may be difficult to sell. If it is too low, you may not realize its true market value.

Home Improvement

After you own a home, your thoughts may turn to improvements or additions. A more modern kitchen would be nice. Do you need another bedroom for the children? If you have equity in your home, a home equity loan can be an inexpensive way to make improvements compared to saving money for the changes. However, this may be less expensive than refinancing your entire home. A home equity loan is based on your ability to repay with the equity in your home. Although there are no restrictions on how home equity loan funds can be spent, generally they are tax-deductible, based on the assumption that the funds will be spent on home improvements. Of course, the home equity loan will add a second payment to your monthly budget.

WOMEN & MONEY

Another option to make improvements is to refinance your mortgage at the current value of the home. This will provide cash for improvements or other expenses, but may change the interest rate and payment of your loan. Whether refinancing will increase or decrease your interest and payment depends on how current interest rates compare to your current mortgage interest rate.

Property Taxes

In New Hampshire, real property taxes support town and city governments, schools, county operations and special taxing districts *(referred to as precincts or village districts)*. Taxes on a particular home are based upon several factors, such as the tax rate, the assessed valuation of the property, and any applicable exemptions or credits. The tax rate is expressed per thousand dollars of valuation. For example, a house with an assessed value of $100,000 in a community with a combined town/county/school tax rate of $25.00 will have property taxes of $2,500. Tax rates for precincts or village districts are applicable only to those properties that lie within the boundary of the precinct or district, such as a water district that encompasses only the downtown area of a community.

Property taxes are assessed by the town or city, and are collected on either an annual, semi-annual or quarterly basis. Exemptions *(a reduction in the assessed value)* and credits *(a reduction in the amount due)* are available to property owners meeting specific eligibility requirements. The most common examples are exemptions for the elderly and credits for veterans. Just as the tax rates vary from town to town, exemptions and credit amounts also vary from town to town.

Property tax rates for all New Hampshire communities are available at http://www.nh.gov/revenue.

Typically, the largest portions of property taxes are used to support schools. These taxes vary greatly from school district to school district, depending on the rate authorized by the voters. You may find a home in an area with multiple taxing districts, such as schools, water and sewers, and special levies for fire protection or other services which will increase your taxes on your home.

Homeowners Insurance

Insurance is not just a good idea, but most often it is required by lenders. You will want to protect your investment against loss from fire and other hazards. You also should protect the personal property within your home, such as furnishings, fixtures, clothes, appliances, etc.

You should protect yourself in the event that someone is injured on your property. You may be liable for injuries occurring on your property. If a neighbor's child is hurt on your property because you did not maintain the property, you may be liable. If your tree falls on the neighbor's car, you may be liable. If your property is unusable due to insured damage, you may be able to receive payments for additional living expenses.

Even renters benefit from insurance, although they are not concerned with protecting the value of the real property. That is the responsibility of the landlord. However, you may be held liable for damage to the rented property if it is caused by your negligence or you assumed payment for the damage through the rental contract. Renters are wise to insure the value of their personal property and protect themselves against liability for damages they may cause.

Making Home Ownership a Reality

Assess

- Establish a good credit record. Few people can save enough money to buy a home with cash. To borrow that much money requires a good credit record with few late pays, reasonable outstanding balances, and proof of your capacity to make the payments for the mortgage, homeowners insurance, and property taxes.
- Begin saving for a down payment. Make it a part of your budget. Give up a few extras as an investment in your future.
- When you start thinking about buying a home, look for information about free first-time homebuyers seminars offered by community agencies and financial institutions in your area.

Home Ownership

- Visit one or more real estate agents to assess your options. Check the Web sites of local real estate companies to compare neighborhoods, typical prices, school districts, etc.
- Contact the Federal Housing Authority, your city or county housing agency, or other agencies to determine your eligibility for special down payment or mortgage financing programs.

Adjust

- Review your year-end mortgage statement, homeowners insurance, and escrow account balance. You may save money by finding errors or overpayments. Compare homeowners insurance rates a few months before your renewal date.
- Annually inspect your property for minor repairs that, if not attended to, may turn into major repairs. Don't forget hidden insect infestations, water damage and the roof.

Protect

- Consider the value of your home as a part of your overall financial and retirement plans.
- Protect your home's value for the day you might downsize.

Want to Know More about Home Ownership and Mortgage Programs?

Fannie Mae
Federal National Mortgage Association, 800-7FANNIE (800-732-6643) www.fanniemae.com

Freddie Mac
Federal Home Loan Mortgage Association, 800-373-3343 www.freddiemac.com

HUD
U.S. Department of Housing and Urban Development, 888-466-3487 www.hud.gov

FHA
Federal Housing Administration, Check the telephone directory for local offices www.hud.gov/offices/hsg

VA
Department of Veterans Affairs, 800-827-1000 www.homeloans.va.gov

Federal Trade Commission
http://www.ftc.gov/

NH Attorney General Consumer Protection and Antitrust Bureau
33 Capitol Street, Concord, NH 03301 http://www.doj.nh.gov/publications/publications.html#cp

NHHFA
New Hampshire Housing Finance Authority, 603.472.8623 http://www.nhhfa.org/

NOTES

NOTES

Insurance — Managing Risk

No one wants to take unnecessary risks. You drive more carefully in the snow. You try to watch your diet and exercise. You lock the doors and windows when you are away from home. A few small things can be helpful and provide peace of mind, but bad things happen to even the most careful people. That is why we buy insurance and try to reduce or ***manage*** the financial risks we take.

For many people, insurance is a necessary evil; you buy it and hope you never need it. Insurance seems like a lot of money for something you cannot see or hold in your hand. When you receive a copy of your insurance policy it looks long and complicated. As you will learn in this section, the basics of insurance are not that hard. And, there are insurance professionals you can rely on to help you with the details.

A critical goal for most people in the economy today is to protect the value of their assets and insure against financial loss. Insurance can be purchased to protect against many accidental or unforeseen events that can cause a financial loss. The main idea behind insurance is indemnification, or compensation for a loss. Beyond that, insurance can be something you use to plan for the future. Some simple steps will help you get started.

- Assess your current insurance plan by collecting all of your policies and determining whether they fit in your immediate and future life plan.
- Adjust your insurance plans as your family changes over the years.
- Protect those items or services you or your survivors cannot afford to replace or pay for.

Rita
47 Years Old
Married to Robert
3 Children
Krystal (16), Zachary (11), and Billy (9)
Registered Nurse
Portsmouth

Insurance—Managing Risk Case Study

Rita and Robert always have made financial decisions as a team. Lately, things are getting more complicated as they think about retirement, their children's education years, and issues dealing with caring for their parents. Krystal will graduate from high school in just a few years, and Zachary and Billy are not far behind. What about their education? What if something happens to Rita or Robert?

Together Rita and Robert have life and disability insurance, health insurance, homeowners and auto insurance. It can become a tedious task to keep up with all of the changes. Rita and Robert haven't had a relationship with their life and auto insurance agents for several years. Now they need to evaluate their coverage, but don't know exactly where to start.

Rita knows her family needs a good risk management plan. Do they have the appropriate plans in place? Can they decipher what they have? Can they sleep at night wondering if they have taken care of the necessary risks as they age?

In this section, you can evaluate Rita and Robert's current plans and the options available to them. They want to reduce their financial risk as well as put their insurance plans in writing so everyone in their family has all the information they will need in times of crisis.

Rita's Monthly Budget

INCOME

Rita's Salary	$ 4,100
Robert's Salary	$ 5,266
Interest	$ 200
Monthly Total	$ 9,566

REGULAR CASH EXPENSES

Groceries/Household	$ 420
Work Lunches	$ 208
Dining Out	$ 280
Entertainment	$ 240
Dry Cleaning	$ 45
Gasoline/Car Expenses	$ 260
Personal Care/Hair	$ 60
Golf/Recreation	$ 200
Clothing	$ 200
Hobbies	$ 150
Monthly Total	$ 2,063

CREDIT/DEBT PAYMENTS

Credit Cards	$ 300
Auto Loan	$ 382
Monthly Total	$ 682

SALARY WITHHOLDINGS

Federal Income Tax	$ 1,219
Social Security/Medicare	$ 716
Health/Dental/Supp Insurance	$ 213
Life/Disability Insurance	$ 45
Union Dues	$ 30
401(k) Contribution	$ 400
Monthly Total	$ 2,623

MONTHLY BILLS

Mortgage/Tax/Insurance	$ 2,405
Time Share/Condo	$ 135
Utilities/Water	$ 180
Telephone/Cell Phone	$ 114
Internet	$ 55
Life/Disability	$ 255
Church Contributions	$ 200
Health Club	$ 120
Monthly Total	$ 3,464

SAVINGS FOR ANNUAL EXPENSES

Car Repairs	$ 100
Vacation	$ 400
Gifts/Holidays	$ 200
College Fund	$ 300
Roth IRA	$ 250
Monthly Total	$ 1,250

Rita's Family Worth

ASSETS

Home	$ 165,000
Rita's Car	$ 9,500
Robert's Car	$ 22,400
401(k)	$ 78,300
Roth IRA	$ 26,200
College Fund	$ 8,724
Savings Account	$ 4,000
Elizabeth's Savings/CDs	$ 28,200
Total Assets	**$ 342,324**

LIABILITIES

College Loans	$ 1,200
Mortgage	$ 92,000
Robert's Car Loan	$ 9,200
Time Share Contract	$ 3,725
Total Liabilities	**$ 106,125**
Net Worth	**$ 236,199**

Insurance—Managing Risk

Rita's goal is to make better decisions about the family's insurance coverage, eliminate any unnecessary plans, cut costs, and learn to self-insure some of their risk. Dealing with the loss of a loved one can be devastating. Rita needs to take an inventory of their coverage plans and contact information so they are prepared in the event of Robert's or her sudden death.

Inventory/Ideas/Changes

Through Withholdings	**Insured**	**Coverage Amount**
Health Insurance	Family HMO	$5 co-pay
Dental	Family DPO	$50 deductible
Life Insurance	Husband	$50,000
Life Insurance	Husband	$100,000
Life Insurance	Rita/Kids	$5,000
Disability	Husband	STD/70.5%
Cancer Coverage	Rita	$250/day
Supplemental Medical	Family	
LTC	Rita	$100/day
Through Loan Contracts		
Mortgage Life Insurance	Both	$92,000
Credit Insurance	Both	$9,500
Credit Card Insurance	Both	Card Balance
Through Direct Billing		
Disability	Rita	LTD/$2,000
Disability	Husband	LTD/$1,000
Life Insurance	Rita	Perm/$100,000
Life Insurance	Husband	Perm/$200,000
Life Insurance	Husband	Term/$150,000
Life Insurance	Child #1	Perm/$50,000
Life Insurance	Child #2	Perm/$50,000
Life Insurance	Child #3	Perm/$50,000

Location of all policies, will, trust, etc: Safe Deposit Box

Insurance Agent: Jane Doe, ABC Insurance Agency
555-555-5555

Insurance—Managing Risk

Take an inventory of your insurance coverage and measure it against your financial risk. What kinds of insurance are appropriate for you, how much, and where do you keep copies of your policies?

	Insurance Company	Coverage Amount	Contact Person
Medical Dental			
You	____________	____________	____________
Spouse	____________	____________	____________
Children	____________	____________	____________
	____________	____________	____________
	____________	____________	____________

Location of Certificate of Coverage: ____

Life

You	____________	____________	____________
Spouse	____________	____________	____________
Children	____________	____________	____________
	____________	____________	____________
	____________	____________	____________

Location of Policies: ____

Disability

You	____________	____________	____________
Spouse	____________	____________	____________

Location of Certificate of Policies: ____

Automobile

You	____________	____________	____________
Spouse	____________	____________	____________
Homeowners	____________	____________	____________
	____________	____________	____________

Location of Certificate of Policies: ____

Special Coverage
Contact Person(s) Information: ____

Insurance—Managing Risk

Risk management, most often found in the form of insurance, has short-term goals like protecting the value of your assets in case of accidents, injuries or premature death. Property can be replaced, assets can be protected from loss, and future income can be provided if something happens. Risk management also has a long-term role as part of an overall financial plan regardless of your age and whether you are retired. There are many options and innovations in the insurance industry that provide choices for consumers.

The underlying concept of risk management or insurance is that premiums and losses are spread out among large numbers of policyholders who share the cost and the risk. When a large number of people pay premiums, enough resources are available to compensate the few who have claims. You can start thinking about your risk management needs by assessing your personal situation.

Ask Yourself

- What are the chances that one of my dependents or I will suffer from a serious injury or illness?
- Do I own valuable property that I may not be able to replace in the event of a theft, fire or accident?
- Do I engage in behaviors that are dangerous to others or myself?
- Will I be able to maintain my present lifestyle after I retire?

To provide financial security, several types of insurance are widely available and recommended.

Health or Medical Insurance

There are many types of medical insurance coverage, all requiring important choices. In the past, employers typically offered employees a single health plan that the employers chose. As businesses grew, organizations formed to provide insurance and other personnel services to employers. Today, some employers will offer employees choices from among several types of plans. The employer, the employee or a combination of both can pay premium payments for health insurance. Coverage may include the employee or the employee and her dependents. Coverage may be for health, dental or vision depending on the plan(s) offered through the employer. At the employer's request, health care plans can be changed. Many employers do not offer health care to part-time employees.

Health Maintenance Organization (HMO)

This is typically the most restrictive health care plan. You must use the HMO's doctors and facilities. Other services may not be covered, depending on the plan. However, HMOs are generally responsible for providing non-experimental and necessary health care to its members even though the HMO does not directly provide the service. You have fewer choices, but your costs typically are lower. Many HMOs have no deductibles or coverage limits. For a hospital or doctor's visit, you may pay only a small ***co-payment.***

Point-of-Service Plan (POS)

This plan is similar to an HMO. Benefit payments will differ significantly between in-network and out-of-network services. Sometimes there is an annual maximum and there may not be coverage for certain routine services provided outside the network. A POS plan usually requires you to select a primary care physician who determines your needs, directs your care, and may refer you to specialists.

Preferred Provider Organization (PPO)

A PPO is a group of doctors and hospitals that have agreed to accept set fees for their services. You choose a doctor or hospital from the list of ***preferred providers***. Some PPOs require that you select a primary care physician to coordinate services. Preventive care is often covered. PPO plans often have deductibles and limits. Members also may obtain services out of network at a lower benefit. You are able to use a doctor or hospital not on the PPO's list; however, you will have higher out-of-pocket costs.

Medicare

Medicare is a federal government health insurance program for people 65 years of age and older, and some people under 65 with disabilities. People with End-Stage Renal Disease *(kidney failure requiring dialysis or a transplant*) also are eligible. Medicare has two parts:

Medicare Part A (Hospital Insurance) – This pays for care in hospitals as an inpatient, in critical access hospitals (small facilities that give limited outpatient and inpatient services to people in rural areas), in skilled nursing facilities, hospice care, and some home health care. Most people get Part A automatically when they turn age 65. You and/or your spouse pay Medicare taxes while you are working. If you did not pay Medicare taxes while you worked and you are age 65 or older, you still may be able to purchase Part A.

Part B (Medical Insurance) – Medicare Part B pays for doctors' services, outpatient hospital care, and some other medical services that Part A does not cover, such as the services of physical and occupational therapists, and some home health care. Part B helps pay for these covered services and supplies when they are medically necessary. For Medicare Part B you pay a premium of $66.60 per month in 2004. This payment will be higher if you did not choose Part B when you first became eligible at age 65 or when you or your spouse stop working, if later than 65. Enrolling in Part B is your choice. You can sign up for Part B anytime during a seven-month period that begins three months before you turn 65, or when you or your spouse stop working, if later than 65. For more information about Medicare, contact the Social Security Administration.

Ask Yourself about Health or Medical Insurance

- Do I choose behaviors that are potentially harmful to my health or life?
- Do I have a family history of or am I at great risk of a serious illness?
- Do I have dependents who may require health care?
- Do I have other options if I am ill or injured?
- Will I have health care coverage after I retire?
- What if I lose my job and my employer's health insurance coverage?

COBRA Health Insurance

In 1985, Congress passed the Consolidated Omnibus Budget Reconciliation Act (COBRA), which guarantees that employees and their families will be able to purchase and continue health insurance coverage if they lose their employee-provided coverage. If you lose your job and want to continue your health care coverage, you will be required to pay the entire premium plus a 2% administration fee to continue the company's coverage until you find new coverage, or for 18 months, whichever comes first. COBRA coverage may be extended to the spouse and dependent children of an employee for 36 months in the case of divorce/legal separation, employee entitlement to Medicare, death of the employee, or loss of dependent child status.

COBRA insurance coverage can be expensive, but may be better than no insurance coverage. Individuals or families may pay up to 102% of the total premium for themselves and for families where the employer may have previously paid all or a portion thereof. Sometimes, the previous employer will pay part or all of the health insurance premiums, depending on the employee's reasons for leaving the job. Those people with continuing medical conditions greatly benefit from the option of continuing medical coverage under COBRA.

Health Insurance "Portability"

In 1966, Congress passed the Health Insurance Portability and Accountability Act *(HIPAA)*. The principle benefit of this legislation is to make it possible for people to have continuous medical coverage if they change employers. Prior to this law, those who changed jobs faced the possibility that the new employer's insurer would not cover a "pre-existing" condition or illness. This new law has increased the opportunity for people to change jobs by guaranteeing that their medical coverage would continue.

In addition, the same bill, HIPAA, was intended to reduce health care fraud and abuse, guarantee the integrity and confidentiality of personal health information, and improve the operations of health care systems. To find out more about HIPAA, contact your healthcare provider or visit the New Hampshire Department of Insurance Web site.

Other Forms of Insurance

Disability Insurance

Some people choose to purchase insurance that provides income if they are disabled and unable to work due to injury or illness. The insurance benefit replaces some portion of the person's lost income. What constitutes a ***disability*** and the amount and length of benefits are defined by the insurance policy. Disability insurance is often used to supplement employer-provided sick pay that has limited benefits. Social Security also provides some disability benefits. In general, to be eligible for Social Security disability benefits, a person must meet three tests. A person must be fully insured for 40 quarters of coverage under Social Security, disability-insured *(20 quarters of coverage out of the last 40)* under Social Security, and meet the definition of being disabled. The disability-insured status checks to see if the person is at least half-time attached to the work force.

The purpose of disability insurance is to provide income while you are unable to work. This type of insurance is especially important to those who work to support themselves and their family. Being out of work due to a disability is worse than a temporary job loss, because with job loss you have the capacity to find new work. Statistically, between the ages of 35 and 65, 30% of people will suffer a disability for five or more years. *(Source: Health Insurance Association of America, February 2000.)*

Life Insurance

The most common types of life insurance are term insurance and permanent insurance. There are many hybrids or various combinations of the two. Whole life, also referred to as permanent, straight life or ordinary life insurance, is a policy that covers a person throughout a lifetime and accumulates a cash value. The contract sets the premium and the death benefit as well as the pattern of the cash value accumulation. Universal life is also a form of permanent insurance, but the premium and cash value fluctuate over time and need to be monitored on an annual basis. Term insurance is purchased for a specified period of time, builds no cash value and pays a specified dollar amount if the policyholder dies. A term policy may or may not be renewable or convertible to permanent coverage.

With all life insurance, the policy owner has an option to choose a beneficiary or beneficiaries, the person or persons who will receive the proceeds. If no beneficiary is chosen, the policy proceeds are paid to the policy owner. If the owner is the insured, the proceeds are paid to the insured's estate. Which type of policy is best depends on your situation. The cash value of permanent life insurance appeals to many people because they include it in their retirement or business planning. Of course, consumers can purchase the less-expensive term insurance and then invest the difference in cost themselves. There is no guarantee which method will reap the greatest benefits to the consumer.

Term and Whole Life: What's the Difference?

Term life policies offer death benefits only. If you die while the policy is in effect, your beneficiaries receive the benefit payment. If you live and the policy expires, the policy pays nothing.

You can buy a term insurance policy for 10, 20 or even 30 years *(or any practical length of time)*, or one that can be continued until age 70, and in some cases later. You can choose an annual renewal premium option, which means the premium increases annually based on your attained age, or choose a level premium for a set number of years. Some insurance contracts have the option to increase your premiums if insurance costs increase. At certain re-entry ages, the state of your health will determine your premium. Re-entry term should be avoided if at all possible. Rates are very low due to the ***medical selection effect.*** If a person fails the medical proof of good health, his or her rates increase dramatically or their coverage may be denied altogether. Some term policies are convertible to permanent insurance.

Term policies always should be purchased with the guaranteed renewable feature. This shifts the risk of becoming uninsurable to the insurance company. And they must renew the contract until a stated age at normal rates—not rated for health problems. This costs money on some contracts but some companies provide it in the basic plan for competitive reasons. Also, term insurance should be convertible. If it is not, find a company that provides this feature. This also shifts the risk of becoming uninsurable to the insurance company. If you need permanent insurance but cannot afford it initially, this may be the way to guarantee getting it in the future.

Permanent life policies offer death benefits with policy reserves, more commonly known as the ***cash value.*** Those reserves may serve as a supplemental source of lifetime funds accessible in emergencies or at retirement. Always proceed with caution when accessing the cash value. Always consult your agent or broker when considering cashing in or borrowing against a permanent life insurance policy. Depending on the cost basis of the policy, there could be a taxable event when cashing it in, but only if the cash value exceeds the premium paid into the policy. Borrowing against the policy may result in a lower death benefit if you die before repaying the loan. If interest on a loan is not paid, the loan and interest can deplete the cash value and the policy can expire with no value.

There are four primary kinds of permanent life insurance.

Traditional Whole Life – The annual premium is fixed because the expense of the policy is spread out over a longer period of time. Because some of the premium dollars are invested to build the cash value of the policy, your selection of insurance company is vitally important. Many whole life policies these days are participating, meaning you earn dividends that increase the cash value and/or death benefit, or decrease the premiums. Traditional whole life policies are the most conservative type of life insurance policy. Be sure to use an insurance carrier with excellent financial ratings and specializes in this product.

Universal Life – Universal life insurance is a type of life insurance policy that became popular in the 1980s. Unlike traditional whole life policies, the premium amount is a lot more flexible. You may increase (within limits), decrease or skip your premium payments. Cash values build within the policy, but end up being consumed over time if the premium is not sufficient enough to cover the expenses of the policy. The death benefit is adjustable as well; however, if you wish to increase the death benefit, you may be required to provide medical proof of insurability. It's important to actively manage this type of policy to maintain sufficient funding, especially because the insurance company can increase charges. Plus, the insurance company invests part of your premium. Again, carefully choose an excellent rated insurance company.

Variable Life – There are both universal and whole life versions of variable life. This option provides death benefits and cash values that fluctuate with the performance of the portfolio of investments that you choose *(you'll receive a prospectus along with your policy)*. The cash value is not guaranteed, but you get to choose where your premium dollars go among the investments in the portfolio. Thus, while there is no guaranteed cash value, you have control over your money and can invest it according to your own tolerance for risk. Depending on the policy purchased, there is the chance for both the cash value and death benefit to increase *(some also allow you to add your cash value to your death benefit)*. If they don't, you'll have a lower cash value and death benefit, although some policies guarantee a minimum death benefit. Just like the regular universal and whole life policies, you can borrow against the policy, or surrender the policy for cash. Consult your agent or broker to determine the consequences of cashing in your policy.

Do You Need Term or Permanent Life Insurance?

This decision truly rests with your need for life insurance. Term insurance is for temporary needs while whole life insurance is for permanent needs. Permanent needs are ones that would occur whenever death occurs. Temporary needs are ones that tend to diminish over time. For example, once the children leave home, you no longer need a large amount of life insurance to support them if you die. It is wrong to buy term insurance if you need permanent insurance because the contract may not exist when the need arises. It is equally wrong to buy permanent insurance to cover temporary needs because it is an inefficient use of premiums, although you do have the insurance. Consult your agent or broker for advice on which type of policy and how much coverage is needed. Everyone has a different situation. There is no solution for everyone!

Where to Begin?

Start by assessing your life insurance needs. Life insurance can:

- Pay the costs of a funeral and burial
- Provide living resources for your spouse and dependents
- Replace the part of your estate that is lost to taxes
- Be used for business planning

Ask Yourself About Life Insurance

- How will my dependents be supported if I die?
- Who will pay for my funeral expenses when I die?
- Will my need for life insurance decrease over my lifetime?
- How much insurance can I afford or do I need?
- How much risk do I want to take with the cash value of my insurance?

Long-Term Care Insurance

Long-term care insurance is an area of insurance not addressed by Medicare and Medicare Supplemental Insurance. Long-term care is potentially the most catastrophic risk facing the elderly and their families. Privately paid long-term care insurance had little appeal until recently. Now, there is increased awareness of the numbers and needs of elderly individuals, especially women, that are not provided for through Medicare. In addition, for you to qualify for benefits through Medicaid, your entire life savings must be used to cover nursing home expenses.

Long-term care encompasses services provided to individuals suffering from chronic illness, a disabling condition, or cognitive impairment. Services are needed for an extended period of time and may not cure or heal the patient. Such services are to help the individual with routine activities such as bathing, dressing, transferring, continence or eating. Depending on the need, services may be provided in a skilled nursing facility, alternate living facility, adult day care facility, or at home.

Automobile Liability and Comprehensive Insurance

New Hampshire law does not require you to have automobile insurance. However, if you have an ***at fault*** accident without having insurance coverage, you will be required to post a bond or cash equal to the amount of damage you caused in that accident. You must also satisfy the NH Financial Responsibility requirements to continue to operate a vehicle in New Hampshire. These minimum limits are 25/50/25 *(Bodily Injury $25,000 per person; $50,000, 2 or more persons; and Property Damage $25,000)*. A $75,000 single limit policy will also satisfy the minimum requirement.

If you purchase automobile insurance in New Hampshire, the minimum limits available for Liability coverage are 25/50/25. This coverage will pay on your behalf those damages sustained by *others* for which *you* are legally liable. This does not provide protection for damage to your own vehicle. You may be required by a financial institution holding a lien on your vehicle to carry Collision and Comprehensive coverage. Other coverages that are mandatory, should you choose to purchase automobile insurance in the State of New Hampshire, are Medical Payments and Uninsured Motorists coverage.

Medical Payments provide coverage for you and any relative who is a member of your household, for medical expenses arising from an automobile accident. In some cases, coverage is provided for non-relatives who are passengers in *your* vehicle. The minimum coverage limit is $5,000.

Uninsured Motorists Coverage provides protection to you and your family members for injuries that result from an accident with an uninsured or hit and run, legally liable motorist. It also provides protection to you against motorists that are insured, but have purchased limits less than your own. In New Hampshire, Uninsured Motorists Coverage must be equal to the limit of Liability coverage purchased.

Ask Yourself About Automobile Insurance

- Can I repair or replace my vehicle if it is seriously damaged?
- Do I want to be personally responsible for damages I may cause to others?
- Do I choose behaviors, such as fast or careless driving, that have increased my insurance costs?
- What are the chances I will be involved in a serious accident for which I will be financially responsible?

Homeowners and Renters Insurance

A home mortgage usually represents a person's largest debt. The good news is that the debt is offset by the value of the home as an asset. The bad news is that your home and other property are subject to a variety of losses. In the event of fire, theft, accident or negligence, the value of those assets is at risk. Homeowners insurance can pay for the financial loss of damaged or stolen property. Homeowners insurance also can pay for many of your sources of financial liability for injuries that occur on or off your property. Of course, there are various levels of coverage and benefits. For instance, your home's fire insurance may cover only part of the cost of repairing or replacing a loss. Liability coverage, should someone be injured on your property, may not be adequate to cover all liability loss.

Renters especially should be aware of the cost of replacement of property due to fire or theft. Renter's insurance is relatively inexpensive because it does not cover the structure, unless your negligence causes damage. Your renter's insurance will, in some cases, cover the losses of your neighbor's property from damage that you caused or that is your responsibility.

Ask Yourself about Homeowners Insurance

- Do I own property that I cannot afford to repair or replace if it is seriously damaged?
- Will I be able to pay for additional expenses if I, for some reason, cannot live in my home?
- Are there any situations around my home that could cause harm to others?
- Is my family careful with our property and/or the property of others?
- Renters: Is my personal property protected if something happens to the home I rent?
- Renters: What does the rental contract say about the responsibility for repair or replacement of rental property, or about the legal liability arising out of the use of the premises or common areas?

Workers' Compensation Insurance

State workers' compensation programs cover individuals injured on the job. The benefits are typically quite low and probably will not replace 100% of your earnings. This is intended to be a stopgap measure to provide minimal coverage for workplace injuries and replace some of your income until you are ready to return to the workforce.

Social Security

Again, this provides minimal coverage and has many restrictions. In 1998, only 35% of Social Security disability claims were approved. You must prove that you are unable to perform your usual occupation and you cannot work in any way while receiving benefits. It must be certified that you are unable to work for at least 12 months.

Will my employer help? Less than 41% of companies in the United States with more than 100 employees, and less than 19% of companies with less than 100 employees, provide employer-provided disability coverage. Typically, employees pay some of the premium for the coverage, and the benefits may not be adequate to replace your full income.

Protection Against Specific Risks

Beyond these basics, a person can purchase insurance to protect against many exposures to loss. Homeowner insurance typically will not cover floods or earthquakes. Special insurance against these hazards may be desirable. While automobile liability insurance is required, collision and comprehensive insurance *(other than collision)* may be an option. Typically, these types of coverage are required as a condition of an automobile loan. Each may have a deductible, which specifies an amount the policyholder must pay before the insurance company pays the remaining repair costs. You also can buy insurance to cover such things as funeral costs, personal property, boats or travel. You also can buy umbrella coverage that insures against losses or liability beyond the limits provided by home or automobile policies.

If you answered *yes* to any of the *Ask Yourself* questions, you should design an insurance plan for yourself. The plan should list your financial responsibilities and potential losses. It is difficult to predict when or if any particular loss will occur. If you are young and healthy, medical insurance with broad coverage may be less important. If you don't drive, car insurance isn't a consideration. If your automobile is worth very little and you are a cautious driver, you may not want to purchase collision insurance. If you have young children, disability insurance with survivor's benefits may be desirable.

Plan to Manage Your Risks

Assess

- Collect information about your insurance coverage and keep it in a safe place. Hold a family meeting so your dependents and other relatives will be aware of benefits in the event of your incapacity, disability or death. For consumer information about various types of insurance available in New Hampshire, see the New Hampshire Department of Insurance web page.
- Review your property and casualty insurance needs *(automobile and home)*. For basic information about property and casualty insurance, contact an insurance agent or the New Hampshire Insurance Department.
- Shop around for insurance as you would shop for a car. Determine your requirements, call several insurance agents, and compare the benefits and costs of their policies.
- For basic information about health insurance, begin with your employer, as the company may provide this coverage. Be sure to understand what is covered and your responsibilities for co-payments and deductibles. If additional coverage is needed, you may be able to expand your employer's plan. Many health insurance companies are listed in the telephone book. Do some research.
- If you are or will be eligible to receive Social Security benefits, contact your regional office of the Social Security Administration to clarify your potential benefits and any conditions to receive those benefits. Check the United States Government section of the telephone book for the local telephone number or address.

Adjust

- Re-assess your need for insurance coverage annually or each time there are changes in your family or financial situation. There will be times when increases in coverage are warranted *(children, college expenses, larger home, riskier* *occupation, improved lifestyle)* and times when coverage can decrease *(fewer dependents, smaller home, lower expenses as you mature)*.

- Review the coverage and premiums of your insurance policies annually or when they are up for renewal. You can shop for insurance like any other product. Compare benefits and costs. Life insurance may have set dates for renewal or specified dates where the insured can increase coverage with no evidence of insurability.
- Investigate the options you will have before you change jobs. Medical insurance coverage may or may not be the same.
- Check your eligibility for Medicare insurance as part of your Social Security benefits. If you are not covered by Medicare, investigate options that may be connected with your retirement plan.
- Regularly review your life insurance policy and its cash value. Make sure your coverage is adequate. Remember that borrowing against your policy's cash value will reduce the death benefit and failure to repay the loan interest may deplete all policy value.

Protect

- Buy insurance coverage for those risks you cannot afford to replace *(your income, life, auto or home)*. Consult a professional to research what options may be available to you. If you already own insurance, perhaps you can consolidate your insurance plans into a couple of policies.
- Our lives change as we age. We can never predict our future. Purchase insurance policies that can be adjusted according to your life's changes and needs.
- Write down in a booklet all of your policies, who is insured, the amount of coverage, and who to contact in the event of a claim. This will help you and your survivors take care those personal affairs in a timely manner.

Want More Information About Insurance?

Social Security Administration
800-772-1213, www.ssa.gov or www.medicare.gov

New Hampshire Insurance Department
603-271-2261 or 800-852-3416, www.nh.gov/insurance

Consumer Guide to Automobile Insurance
www.state.nh.us/insurance/property/autoinsu.htm

WOMEN & MONEY

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Investing for the Future

Investing should be a long-term decision-making process.

In the short-term, saving in a manner that preserves your principal and gains some interest income is a way to accumulate enough funds to make large purchases such as a down payment on a home. The ***short-term*** is generally considered a period of less than five years. During this short time horizon, you may not have the time to recoup any losses from risky investments.

To achieve long term goals, such as saving for children's educational expenses or retirement, more risky strategies that offer greater potential for growth may be appropriate. ***Long-term*** generally refers to a period of 10 years or more. With this amount of time to accumulate wealth, you can tolerate more risk in return for potential growth. Your plan should be adjusted to changing personal or economic conditions.

The period between five and 10 years is a transition time. There may be trade-offs between your short and long term goals. As you get closer to your goal or retirement age, revising your investment strategies to shorter term goals may be the most prudent approach.

To be successful, you should:

- Assess your short-term and long-term goals.
- Adjust the allocation of your assets to fit your personal circumstances.
- Protect your financial future through better investment planning.

Isabelle
34 Years Old
Married to James
No Children
Nurse
Tilton

Investing for the Future Case Study

Isabelle and James sat down with a financial planner not long ago and began the process of establishing an investment plan. Their goals included how to use the inheritance from Isabelle's father most effectively and how to begin saving for a home. They are seriously thinking about starting a family because they seem more financially secure than in the past. Besides, James' parents are continuously dropping hints.

During the past months, the couple has looked seriously at their investment goals. They would like to have a retirement income equal to 70% of their annual income at the time they retire. The two would also like to have something put away to help their children with college expenses, a long term goal. Finally, Isabelle and James would like to purchase a home prior to having their first child, so sometime soon.

Isabelle recently moved her 401(k) to her new employer's plan. Her company will contribute 50 cents for every dollar Isabelle contributes—a 50% match. Right now, Isabelle chose the moderately aggressive growth fund for her 401(k) dollars because she is willing to take a certain amount of risk for the potential growth, and she will not need access to those funds for quite a while.

The options for the $35,000 inheritance from Isabelle's father still remain an issue. The first step the couple took was to pay off their truck and furniture loans because the interest rates were high. The rates are so low on their student loans that it doesn't make sense to pay those off early. This leaves about $28,000 to invest or use for a down payment on a house.

James and Isabelle have been reading about stocks, bonds, IRAs, and many other investment options. This case study examines what choices the couple has and how they might think about their investment options.

Isabelle's Monthly Budget

INCOME	
Isabelle's Salary	$ 2,587
James' Salary	$ 2,050
Interest on CDs	$ 450
Interest on Savings Accounts	$ 68
Monthly Total	$ 5,155

REGULAR CASH EXPENSES	
Groceries/Household	$ 385
Dining Out	$ 115
Entertainment	$ 60
Dry Cleaning	$ 45
Gasoline/Car Expenses	$ 110
Cigarettes	$ 95
Prescriptions/Co-Pay	$ 36
Clothing	$ 90
Monthly Total	$ 936

CREDIT/DEBT PAYMENTS	
Credit Cards	$ 250
Student Loan	$ 270
Isabelle's Car	$ 350
Monthly Total	$ 870

SALARY WITHHOLDINGS	
Federal Income Tax	$ 420
Social Security/Medicare	$ 355
Health Insurance	$ 110
Life Insurance	$ 15
Disability Insurance	$ 32
401(k) Contribution	$ 250
Monthly Total	$ 1,182

MONTHLY BILLS	
Rent	$ 860
Utilities/Water	$ 90
Telephone/Cell Phone	$ 75
Cable/Internet	$ 44
Auto Insurance	$ 97
Sister's Rent	$ 150
Memberships	$ 15
Renter's Insurance	$ 10
Monthly Total	$ 1,341

SAVINGS FOR ANNUAL EXPENSES	
Car Repairs	$ 120
Home Maintenance/Furnishings	$ 70
Vacation	$ 125
Gifts/Holidays	$ 75
Professional Association	$ 30
Hobbies	$ 50
Reinvested CD Interest	$ 450
Monthly Total	$ 920

Isabelles' Family Worth

ASSETS	
Isabelle's Car	$ 22,400
James' Car	$ 4,500
Inheritance	$ 28,000
401(k)	$ 7,344
Roth IRA (CD)	$ 20,000
Savings Account	$ 630
Total Assets	**$ 82,874**

LIABILITIES	
Student Loan Service	$ 18,000
VISA Card Balances	$ 2,700
Isabelle's Car Loan	$ 6,000
Total Liabilities	**$ 26,700**
Net Worth	**$ 56,174**

Investing for the Future

Prior to making her specific investment decisions, Isabelle should be clear about her investment goals, her timeline, her ability to save and her tolerance for risk. She should answer these basic questions before proceeding.

Isabelle's Investment Goals

Goal:	What is the intended purpose of Isabelle's investment?
Priority:	How important is achieving this goal relative to achieving her other financial goals?
Timeline:	How many months does Isabelle have to achieve her goal?
Amount:	What is the dollar amount she will want to have at that time?
Amount/Month:	How much will Isabelle have to save each month *(year)*?
Risk Level:	What are the consequences if she loses some or all of the value of this investment?

Goal #1:

Priority: ______________________________

Timeline: ______________________________

Amount: ______________________________

Amount/Month: ______________________________

Risk Level: ______________________________

Goal #2:

Priority: ______________________________

Timeline: ______________________________

Amount: ______________________________

Amount/Month: ______________________________

Risk Level: ______________________________

Goal #3:

Priority: ______________________________

Timeline: ______________________________

Amount: ______________________________

Amount/Month: ______________________________

Risk Level: ______________________________

Investing for the Future

Prior to making your specific investment decisions, you should be clear about your investment goals, your timeline, your ability to save and your tolerance for risk. You should answer these basic questions before proceeding.

Your Investment Goals

Goal:	What is the intended purpose of your investment?
Priority:	How important is achieving this goal relative to achieving your other financial goals?
Timeline:	How many months do you have to achieve your goal?
Amount:	What is the dollar amount your will want to have at that time?
Amount/Month:	How much will you have to save each month *(year)*?
Risk Level:	What are the consequences if you lose some or all of the value of this investment?

Goal #1:

Priority: ______________________________

Timeline: ______________________________

Amount: ______________________________

Amount/Month: ______________________________

Risk Level: ______________________________

Goal #2:

Priority: ______________________________

Timeline: ______________________________

Amount: ______________________________

Amount/Month: ______________________________

Risk Level: ______________________________

Goal #3:

Priority: ______________________________

Timeline: ______________________________

Amount: ______________________________

Amount/Month: ______________________________

Risk Level: ______________________________

Your Asset Allocation Worksheet

Step 1 - Determine your investment goals.

What are you saving for? Short-term? Long-term?

Step 2 - Determine your timeline.

What is your timeline? When will you start drawing money out of the plan?
Will you draw it all out at once or over a period of time?

Step 3 - Determine your tolerance for risk.

What is your investment experience? How much risk do you feel comfortable with?
How will you react if you receive a statement and your investments are down?

Step 4 - Design your investment *pie (your asset allocation)*.

Given the answers to the questions above...
Do you think you should have an asset allocation that is riskier than a balanced portfolio *(60% stocks; 40% bonds and cash)*? Less risky? About the same?

Step 5 - Choose the individual investments.

What kind of investment vehicles are available?
What is the risk/reward profile of each option?
Which investments are most appropriate for me to use?
Will this investment diversify my portfolio?
How much does each instrument cost?
How do I best execute my plan?

To ***invest*** usually means taking on some risk by buying an asset with the hope that it will increase in value over a period of time. If a person is not able to tolerate *(beyond a minimal amount)* any risk of loss, perhaps more traditional ***saving*** methods are more appropriate. For most people, a combination of saving and investing best meets their needs.

In the short term or long term, investing means giving up the personal use of assets during the time they are invested. Each dollar put into saving or investing is a dollar you cannot spend today. Giving up spending today is often difficult. A bigger house would be nice. A newer car would be great. Going out for lunch at a nice restaurant more than once in a while might be a treat you deserve. Choosing to satisfy one of these short-term goals will impact your ability to achieve your long-term goals. Investing should be thought of as a commitment to the future, a trade-off for not consuming something today to ensure future financial security.

Once you have decided to invest for the future, you have some choices to make. Many investment options are available to you, depending on your *temperament* for the task.

Ask Yourself

- What are my long term investment goals?
- How can I get reliable information about my investment options?
- When do I want to have access to my investment funds?
- Am I willing to learn about my options on my own or should I seek professional help?

Investments — Section I

The Basics

Types of Investments

Stock. A share of stock represents equity ownership in a corporation. The owner of a share of stock owns part of the company that issued the stock. If a company is worth $1 million and has issued 100,000 shares of stock, each share is worth $10. As an owner, the stockholder shares in the profits, if any, of the company and may vote on decisions about how the company is run.

A variety of terms are used to classify different types of stocks:

Common Stocks. These are securities representing equity ownership in a corporation, usually with voting rights and entitling the holder to a share of the company's earnings through payment of dividends and/or capital appreciation. Dividends may vary and are based on the company's performance.

Preferred Stocks. These stocks provide a specified dividend that is paid before any dividends are paid to holders of common stock. They represent partial ownership in a company although preferred stockholders usually do not have voting rights.

Stocks are also differentiated by the size of the corporation. You may have heard the terms ***large-cap*** or ***small-cap*** stocks. ***Cap*** is short for capitalization and is calculated by multiplying the number of shares outstanding by the price per share. For example, if ABC Inc. has 1 billion shares owned by stockholders and the price per share is $10, ABC has a capitalization of $10 billion.

Large-Cap Stocks. Stock in companies with a market capitalization of over $5 billion.

Blue Chip Stocks. These really are not a type of stock, but a term that refers to stocks of large-cap corporations with steady growth and dividend payments, such as Procter & Gamble, IBM, General Electric or Ford Motor Company. In general, large-cap stocks are more stable than stocks of smaller companies because they are more likely to withstand the normal ups and downs of the economic cycle.

Mid-Cap Stocks. Stock in companies with a market capitalization of $1 billion to $5 billion.

Small-Cap Stocks. Stock in companies with a market capitalization of less than $1 billion. Small-cap stocks are riskier than large-cap stocks, but their rate of return is often higher than that of large-cap stocks.

Penny Stocks. Stocks that are more risky and sell for less than $5 over-the-counter *(not through a stock exchange)*.

Foreign Stocks. U.S. citizens also can purchase shares of companies incorporated under the laws of a foreign country. Typically, this is through a mechanism called an American Depository Receipt, a certificate issued by a U.S. bank representing a specific number of shares of a foreign stock that are traded on a U.S. stock exchange. Laws governing ownership of foreign stocks vary, including the tax liability.

Bonds

Bonds are debt obligations of a publicly owned company or a government agency. They do not represent ownership but are obligations to repay a loan over some time period with a set interest payment. The company or agency is obligated to pay its debt to its bondholders prior to paying dividends to the stockholders. Bonds are sold with a face value and a specific rate of return.

If you hold a bond to maturity, you generally will be paid the face value of the bond. If you sell the bond before it matures, you will either get a higher or lower price based on how many people want to buy or sell that particular bond. Each bond has a current market price and a set interest rate. As the price changes, the real interest rate changes. Some bonds pay regular interest plus the face value at maturity. Some, like zero-coupon bonds, pay only the face value.

The value of an existing bond depends on the current level and direction of interest rates. If interest rates increase, existing bonds decrease in value; if interest rates are declining, bonds go up. Let's say you own a bond issued by Procter and Gamble that pays 6% annually and matures in five years. If interest rates go up to 8%, your bond will be worth less than the face value if you try to sell it because investors can get newer bonds that pay a higher rate of interest. On the other hand, if interest rates decline to 4%, your 6% bond will be very attractive and you will be able to charge a premium if you sell it.

Corporate bonds are issued by companies such as Gillette, Citigroup, General Motors and IBM. The interest is taxed by both the federal and state governments.

Municipal bonds are those issued by state or local governments to finance public works projects or services. The interest on municipal bonds is not taxed by the federal government and may not be taxed by the state. Interest on municipal bonds sold by New Hampshire governments is not subject to New Hampshire interest and dividends tax.

Junk bonds are highly speculative and risky investments. They are issued by companies in distress and pay a higher-than-average rate of interest. Only those who can tolerate a great risk of their capital should purchase these bonds. If the issuing company is successful, the bonds may greatly increase in value, but there is always risk that the issuing company may not be able to pay on its obligations.

Treasury Securities—Bills, Bonds and Notes. These securities are debt instruments of the U.S. government. The Treasury issues securities to raise the money to operate the federal government and to pay off maturing obligations—its debt, in other words. Treasury securities are a safe investment option because the government guarantees that interest and principal payments will be paid. They can be bought and sold easily.

Treasury Bills *(or T-bills)* are short-term securities that mature in one year or less. You buy a T-bill for a price less than its face value and when it matures you are paid its full *(par)* value. Your interest is the difference between the purchase price and the amount you receive at maturity. For example, if you buy a $10,000 26-week Treasury bill for $9,750 and hold it until maturity, your interest will be $250.

Treasury Notes and **Treasury Bonds** are securities that pay a fixed rate of interest every six months until the security matures. Treasury notes mature in more than a year, but not more than 10 years from their issue date. Bonds mature in more than 10 years.

Newly issued **Treasury Bills, Treasury Notes** or **Treasury Bonds** can be purchased through Treasury auctions. To purchase these securities, contact the U.S. Treasury, a Federal Reserve Bank, a financial institution or a government securities broker or dealer. You can now buy Treasury Bills, Notes and Bonds directly from the government through ***TreasuryDirect***. You make purchases on the Internet, by phone or the traditional paper method. If you want to buy an existing Treasury security in the secondary securities market, contact your financial institution, broker or dealer for more information.

Savings Accounts and Certificates of Deposit

Savings accounts and certificates of deposit pay interest and keep your principal secure. These are much less risky since they are insured by a government agency for up to $100,000 per account. A regular savings account provides easy access to your funds, but pays a lower rate of return. A certificate of deposit pays a higher return, but obligates you to keep your funds in the account for a stated period of time to receive that higher rate.

Savings Bonds

Savings bonds are sold by the United States Government and are a secure investment option. EE bonds are purchased at a discounted price *(i.e., $25 for a $50 EE bond)* and the interest is added to the value of the bond. EE bonds pay interest for 30 years. I bonds are purchased at face value and pay a set rate of interest plus an additional amount twice a year to adjust for the inflation rate. The interest on both I bonds and EE bonds is taxed by the federal government but not by the states, and the tax is due in the year you cash in the bonds. EE and I bonds can be purchased at banks or online at www.savingsbonds.gov.

Real Estate

Another option is to invest in residential or commercial real estate. You can purchase real estate individually or through a Real Estate Investment Trust *(REIT)*. Real estate most often requires an upfront payment and will have ongoing expenses. Real property can increase *(or decrease)* in market value over time as can the income you receive from rental payments. There are a variety of programs available to assist those interested in real estate investments. It is appropriate only for those who are in a solid financial position and can tolerate risk.

A REIT is a company that owns and/or operates income-producing real estate, such as apartments, shopping centers, offices and warehouses. Some REITs also are engaged in financing real estate. A REIT is legally required to pay 90% of its taxable income to its shareholders every year. Like stocks or bonds, REITs can be owned individually or in mutual funds.

Collecting

Collectibles, such as dolls, cars, antiques, stamps, coins or gems, can be used as an investment but has the potential for loss. Investors holding these assets hope their market value will increase over time or hold their value if the value of other financial investments decrease. These investments typically are more difficult to sell if you no longer want to hold them. They are bought and sold by and to individuals rather than through stock or bond markets. They are not as easy to sell *(or liquidate)* in the event you need to raise cash.

Mutual Funds

Mutual funds are pools of funds from many individual or institutional investors who share ownership of groups of stocks or bonds. A *stock fund* invests its assets in stocks. A *bond fund* invests its assets in bonds or government securities. A *balanced* or asset allocation fund invests in both stocks and bonds. Balanced funds can be good starter funds or *one-stop-shopping* funds for investors who want broad diversification in just one fund. Mutual funds are also classified by their *objective***.** An *income fund* invests in assets that pay regular income. An investor in a *growth fund* hopes that the value of the asset will increase over time. Funds also may specialize in small companies, fast-growing companies, foreign companies or certain industries, such as technology companies.

Mutual funds have several advantages. The investment is diversified or spread out among many companies or agencies. Mutual funds are convenient and allow individuals to have access to professional investment management. Mutual funds pay dividends, their shares may increase in value, or both. Purchasing mutual funds may require a smaller initial investment and can be added to or sold at any time. Each mutual fund has its own rules, charges and processes. All have strict government regulations concerning their sales and operations.

When you invest in a mutual fund, fees called operating expenses are deducted from your earnings to pay for the management and administration of the fund. If you invest in a **load** or **commissioned mutual fund**, you are charged an additional fee or load. These extra fees can be charged when you buy the fund *(front-end charges)*, sell the fund *(deferred charges)* or while you hold the fund *(level loads)*. Mutual fund commissions average about 5%. Load funds are purchased from brokers, banks or commissioned planners. **No-load funds** are purchased directly from mutual companies and do not have extra fees or loads. They charge management fees. It is important to be aware of the various fees that a mutual fund charges. If you are willing to do some research on your own and invest in no-load mutual funds, you can save the extra charges.

As you choose investments, it's extremely important to pay attention to costs. For example, if you invest $10,000 in the Oppenheimer International Growth Fund A, a front-load commissioned fund, 5.75% or $575 will be deducted from your investment immediately to pay the bank or brokerage firm, a quarter of a percent will be deducted each year as ongoing payments to the seller, and 1.25% will be deducted annually to pay the operating expenses of running the fund. If you invest $10,000 in the Vanguard International Growth Fund, a no-load mutual fund, your full $10,000 will be invested and .67% (two-thirds of a percent) will be deducted annually to pay operating expenses. If both funds earn 8%, after the first year, your balance in the Oppenheimer fund would be approximately $10,026 while your balance in the Vanguard fund would be about $10,729.

Brokerage Accounts

Individuals or couples can open an account with a brokerage firm to hold shares of individual stocks, bonds, mutual funds or other financial investments. The ***brokers*** buy and sell the stocks for the investors. The shares can be held by the brokerage firm or the share certificates can be issued to the individual. Some brokers will allow purchases of minimum dollar amounts of shares and automatically reinvest dividends for the shareholders. Accounts can be set up to purchase shares at any time or through regular monthly investments. Brokers typically charge a fee per purchase or sale. Full service brokers may provide investment advisory services as a part of the fee or for an additional fee. Discount brokers will provde fewer services but at a reduced transaction cost.

Unit Investment Trust

A unit investment trust *(UIT)* is an investment company that buys and holds a portfolio of stocks, bonds or other securities. *Units* in the trust are sold to investors who receive a share of principal and interest or dividends. Unlike mutual funds, unit investment trusts terminate on a date that is clearly stated by the trust prior to the date of deposit. There are two basic categories of unit investment trusts: equity and fixed-income. Equity UITs offer a fixed portfolio of stocks that are selected by professional money managers based on a pre-defined investment strategy. Unit investment trusts also are offered with fixed portfolios of bonds. Interest payments for fixed-income UITs are distributed on a pre-determined date. These are typically sold through ***full service*** brokers.

Retirement Investment Plans

A variety of plans that have favorable tax advantages are available for individual investors if the funds are held until retirement. A **401(k)** plan allows an employee to contribute pre-tax dollars to a company investment program and to choose the mutual funds in which the money is invested. These plans also are known as salary-reduction plans.

There are two types of IRAs. Earnings on a **Traditional IRA** are tax-deferred. For tax purposes, depending on how much money you earn, you may be eligible to deduct your IRA contribution from your non-tax-deferred investment income. There are penalties for withdrawing money from your traditional IRA before you reach the age of 59 1/2 and withdrawals will be taxed as ordinary income.

The **Roth IRA,** a relatively new type of IRA, was named after Senator William Roth of Delaware, who championed the Taxpayer Relief Act of 1997. Contributions to your Roth IRA are not deducted from your taxable income, but growth in your Roth IRA is tax-free. Your ***contributions*** to a Roth IRA can be withdrawn any time, for any purpose, tax free. If you have had your Roth IRA for more than five years, you may be able to withdraw ***earnings*** from it without paying penalties and/or taxes. The following conditions apply for withdrawal without paying penalties and/or tax penalties: you have reached the age of 59 1/2, you have become fully disabled, or you are using the money to buy your first home *($10,000 lifetime limit)*. You also may withdraw from your Roth IRA to pay for college. You will have to pay taxes on that withdrawal but you will not be subject to the 10% penalty for premature withdrawal.

A **403(b)** plan is a special type of salary reduction retirement savings plan, also known as a tax-sheltered annuity, available only to employees of educational institutions and other qualifying non-profit organizations. These plans function like 401(k) plans.

Employee thrift and savings plans usually require after-tax contributions that are either wholly or partially matched by the employer's contributions. Even though there are no immediate tax benefits, you get something for nothing *(your employer's contribution)* and your savings will benefit from accumulating tax deferral.

A **Keogh plan** is a formal arrangement in which the owner or owners of an unincorporated business *(a sole proprietorship or a partnership)* provide tax-deferred retirement benefits to the owners, or partners and their eligible employees, if any.

A **Simplified Employee Pension Plan *(SEP)*** is a retirement savings plan frequently used by self-employed people and small businesses. Instead of maintaining a separate pension plan, as is required with a Keogh, SEP contributions are deposited into an IRA.

A SIMPLE Plan is another type of retirement plan used by small companies. Employees can make contributions from their salary, and the employer matches the contributions dollar for dollar up to 3% of the employee's salary.

An **Annuity** is a formal contract, usually issued by an insurance company, guaranteeing a payment to the annuitant (the purchaser of the annuity) at some future time. There are two basic types of annuities, **fixed**, according to a contract, and **variable,** depending on the market value of the investment. A **tax-deferred annuity** is used to accumulate retirement savings. The money you invest can grow, tax deferred, in order to create a sizable nest egg. You can purchase a deferred annuity with a single sum or by making periodic payments. The income is not taxed until it is withdrawn from the annuity. Annuities sold by banks, brokers and commissioned planners carry commissions and ongoing expenses, in addition to surrender charges. If you are considering purchasing an annuity, make sure you understand the terms of the contract and how much of your investment will go to pay the person or institution that sold the annuity.

> An **immediate** or **single-premium** annuity is used to provide a stream of retirement income. They typically begin generating periodic, usually monthly, income payments within a short period of time. A new retiree may use an immediate annuity to provide a reliable source of retirement income that will continue for life, although often without adjustment for inflation.
>
> A **deferred annuity** is typically used to accumulate savings that will provide retirement income at a point in the future. The money you invest can grow, tax deferred, in order to create a nest egg from which you will draw retirement income. You can purchase a deferred annuity with a single payment or by making periodic payments.

For more about the ***mechanics*** of deposits and withdrawals from these accounts, see the ***Retirement*** section.

Basic Investment Terms and Phrases

Rule of 72

This rule gives an estimate of how long it will take your investment to double, given a specific rate of return. Simply divide 72 by your average annual rate of return and the result will be the doubling time. For example, if you earn 8% on your investments, your nest egg will double in about 9 years *(72 divided by 8 equals 9)*. If you keep your money in CDs and savings accounts, your average rate of return will be about 4% and it will take about 18 years to double your money. If you invested $5,000, you'd have $10,000 in 18 years and $20,000 in 36 years *(2 doubling periods)*. However, if you invested in a balanced mutual fund that split your money into stocks and bonds, your average rate of return would be about 8% and your money would double in 9 years. Your initial investment of $5,000 would reach the $20,000 mark after 18 years—twice as fast as an investment in CDs and savings accounts.

Dollar Cost Averaging

Dollar cost averaging is designed to reduce the volatility of your investments. When regularly purchasing or selling investments such as stocks or mutual funds, the most difficult thing is to, as the old saying goes, ***buy low and sell high.*** Use the strategy of dollar cost averaging to avoid trying to time the market. Securities, typically stocks or mutual funds, are purchased in fixed dollar amounts at regular intervals, regardless of what direction the market is moving. When share prices are high, you'll buy fewer shares with your fixed investment, and when share prices are depressed, you'll scoop up more shares at bargain prices. The purchases made when the price is up are averaged with those made when the price is down. The market tends to go up over time, so the bargain shares will float up in value.

For example, over the course of a year, the price of a share of your mutual fund fluctuated from $8.00 to $13.00. Each month, you invested $100. One month you paid $8.00 a share and bought 12.5 shares. Another month you paid $13.00 a share and bought 7.7 shares with your $100. In the other months, you paid something in between. At the end of the year, you invested $1,200 at an average of $10.00 per share. Looking at the average cost is much easier than trying to decide exactly when to buy shares.

Pay Yourself First

If you wait to set aside money for retirement or other goals until the end of the month after you have paid all your bills, chances are you won't have much money to invest. A better strategy is to make your investments first by contributing directly to a retirement plan or having a fixed amount of money automatically deducted from your checking or savings account to go into an IRA or other investment. If you pay yourself first, you're more likely to meet your investment goals. Plus, you reduce your stress if you know you are funding your future first and can use the rest of your monthly income to meet your other bills and expenses.

Direct Stock Purchase Program

Many publicly traded companies allow individuals to purchase stock directly. A direct stock purchase program is a program registered with the Securities Exchange Commission *(SEC)* in which shares of stock are sold directly to investors, rather than through a broker. A company also may have a Dividend Reinvestment Plan *(DRIP)*, whereby dividends are automatically reinvested in additional shares of stock at a very low cost. A new type of investment firm is one that allows individuals to purchase stock in a variety of companies with no limit on quantities and at very low fees. Shares are held by the investment firm in the name of an individual. The investment firm makes regular purchases, consolidating the individual's requests from clients.

"Buy and Hold"

Some investors are concerned with the return of investments over relatively short periods of time. Others see investments as long-term strategies, even to the degree of not regularly checking on the performance of the investments. Those who choose to *buy and hold* take advantage of the compounding of dividends and avoiding taxes on the capital gains of more frequent sales. Reinvesting dividends coupled with avoiding transaction costs and taxes increase the net return over time. For example, a share of a *blue chip* stock paying a yield of 6%, when reinvested, will double in value in 12 years even if there is no appreciation in the price of the share of stock.

Buy and hold also has proven to be a more profitable strategy than trying to time the market. Although investors often are tempted to move money in and out of the stock market to try to take advantage of fluctuations in prices, the truth is no one has a crystal ball and not even professional money managers have been able to successfully time the market over long periods of time. Even if you are lucky enough to move money out of the market before a downfall, no one rings a bell to tell you when to reinvest the money. Most market timers don't get back into the stock market in time to catch the upturn. A far better strategy is to choose how your investments will be divided among stocks, bonds, and safe investments like savings accounts and then stick to your plan.

Investing for Income or Growth

Dividends or interest from savings or an investment are income to the owner of the asset. Interest from a savings account is income. Interest from bonds is income. Dividends from stock and mutual funds are income. Some companies pay a high dividend, but the value of their stock does not grow as fast. Utilities have traditionally been good *income* stocks due to their higher dividend rates, but have not typically been good growth investments. Investing in income-producing assets can be advisable when you need a regular stream of income. Mutual funds that invest in income-producing assets are called *income funds*. Investments that produce a small stream of income—or no income at all—but whose shares increase in price are typically called growth investments. Examples are small-growth companies or technology companies that do not pay dividends. A well-diversified investor has holdings in both growth and income assets because the two categories perform differently under different market conditions.

Investor Protection

Every investment option exists within a myriad of legal structures. The Securities and Exchange Commission, The Federal Reserve System, The U.S. Department of Commerce, many other federal agencies, and agencies in all 50 states regulate the way investments are marketed, traded and evaluated. Within each of the industries of banking, mutual funds, stock markets, etc.—governing bodies and industry *watch dog* groups set and enforce rules on financial advisors, agents, bank officers, brokers and others. If you have questions or concerns about a securities dealer or general questions about securities purchases, contact the New Hampshire Bureau of Securities Regulation *(www.sos.nh.gov/securities)* or the U.S. Securities and Exchange Commission.

Diversification

Diversification is the strategy to balance your investment risk and return by putting together a mix of different stocks, bonds or other assets. By investing in a variety of stocks representing different industries and other types of investments, the impact on the total value of the portfolio of one losing its value is lessened. Putting *all of your eggs in one basket* is inherently risky. No matter how stable the stock has been, all companies have some potential weakness. Many investment advisors will insist on a combination of growth, income, safe and risky assets, and even some "cash" for opportunities or emergencies.

Diversification lowers risk because not all investments react the same to market conditions. As the economy slips into recession, stocks generally lose value because companies' profits decline. However, interest rates also decline in recession and that helps bonds, so they tend to perform well. When your portfolio is diversified, your rate of return will not fluctuate as much because the investments that are doing well will offset to some extent the poor performers.

Risk and Return – Trade-offs

One *rule of thumb* about investing is that risk and return are related. Usually, the higher the anticipated return, the greater the risk of loss of some or all of the invested funds. Conversely, the least risky investments usually pay a lower rate of return.

Generally, the following ***risk-return ladder*** is the rule.

Cash and equivalents	low risk	low return
Bonds	moderate risk	moderate return
Stocks	higher risk	higher potential return

Liquidity Needs—Access to Your Money

The general rule about your investment savings is that the easier it is for you to access your funds, the lower the rate of return. Your ability to access your funds or convert them to cash quickly without a significant decrease in value and at minimal cost is called **liquidity**. Most often, a bank or savings and loan will pay you a premium for allowing them to keep your money. Although it is not always true, most commonly you will find that a two-year certificate of deposit pays a better interest rate than a six-month CD. Withdrawing a CD prior to the maturity date will cause a penalty in the form of lower interest.

Tax Liabilities

Different types of investments have different tax consequences. The growth or **capital gain** from investments such as stock or real estate is not taxable until the asset is sold and the capital gain is realized. Income from interest and dividends is taxable in the tax year in which it is paid, even if the income is reinvested. Interest and dividends are taxed at the rate of earned income. Currently, capital gains are taxed at a favorable tax rate compared to your marginal personal income tax rate.

Many options are available to investors that minimize or delay the tax consequences of investments. Most of these options are intended for use in retirement planning, and the income put into the plan is not taxed until it is withdrawn at retirement age. You may benefit from investigating an **Individual Retirement Plan (IRA)** or a tax-deferred investment vehicle **[401(k) or 403(b)]** as a part of your total investment plan.

Should You "Go It Alone" or Seek Investment Advice?

One very important consideration when you decide to invest is whether you want to *go it alone* or seek professional assistance. Today, there is a variety of options for investors.

Financial Planners. A financial planner provides personalized assistance for a broad variety of financial decisions as part of an overall plan. Each state has requirements to be registered as a financial planner. The Certified Financial Planner Board of Standards grants the **Certified Financial Planner** *(CFP®)* designation. A Certified Financial Planner must pass a series of exams and enroll in ongoing education classes. Knowledge of estate planning, tax preparation, insurance and investing is required. Financial planners are required to give you a copy of form ADV-II *(part of their registration form)*.

A CFP®will help you set and achieve your long-term financial goals, through selection of investments, tax planning, asset allocation, risk management, retirement planning, and estate planning. Most CFP®s sell products and charge commissions. Some financial planners, called fee-only planners, charge a fee for planning services and don't sell products or receive commissions. The fee may be a flat amount, a percentage of managed investments, or an hourly rate. For a list of fee-only planners in your area, contact the National Association of Personal Financial Advisors *(NAPFA)*.

Full-Service Brokers. These traditional brokerage companies offer full service to clients, including research and planning assistance along with stock and bond brokerage services. The individual or firm acts as an intermediary between a buyer and seller and usually charges a commission. For securities and most other products, a license is required to act as a broker. Typically, the commission for these services is a percentage of the investment amount or a per-share amount. In some cases, a monthly fee provides some regular level of services. For information about choosing a broker, contact the Securities and Exchange Commission. The New Hampshire Secretary of State, Bureau of Securities Regulation Web site has some information on investment professionals as well as investor education materials.

Discount Brokers. Increased competition in the financial services industry in the 1990s has led to lower brokerage fees and so-called ***discount brokers.*** These are simply brokerage companies that will transact trades for a smaller fee. Usually, these companies do not provide the research and planning assistance offered by full-service brokers or will offer only those services for an additional fee. Many discount brokers now use the Internet to process orders.

Online Brokers. The new development, made possible by the growing use of home computers, is Internet-based trading or **online brokers**. Many of these *e-traders* will transact purchases and sales for very low fees compared to the more traditional brokers. Originally, these trades were offered with no additional services, but competition has spurred a variety of online research and planning tools with little or no cost. Some online brokers also offer trading through a traditional brokerage company.

Investment Clubs. An investment club is group of individual investors who pool their money and make joint investments. The benefits of forming a club are that you share knowledge, it is easier to diversify a portfolio, and you may have reduced commissions and fees. Investment decisions are made by committees or by agreement of the club members. The members share the gain *(or loss)*. For more information about investment clubs, contact the Securities and Exchange Commission or the National Association of Investors Corporation.

Making Investing a Reality

Of course, the amount you can invest is greatly determined by your income. But, no matter what your income is, you can take advantage of some investing strategies. For those with more to invest, there are many possibilities. For those with little *(today)*, there are many ways to start investing a few dollars regularly. Remember the ***Rule of 72***. Starting early is important. Every dollar you invest can grow until you need it.

Today

- Reassess your current savings and other investments in terms of interest rates, growth potential, tax liability and risk.
- Determine your long-term goals.
- Determine an investment strategy that will meet your goals with an amount of risk with which you can live.
- Continue to educate yourself about investing by reading, consulting websites and/or enrolling in a personal finance course.
- Seek advice about your plan. Many local agencies offer investment information and help at little or no cost. Professional investment firms usually charge a fee for their services.

Annually

- Review your portfolio performance with your investment advisor(s).
- Collect, organize and keep all financial records relevant to your investments. When you sell stocks or bonds, you will need information about the purchase to determine your gains and losses which in turn impact your tax liability.

Long-term

- Determine your risk tolerance. What are your obligations in the event of problems with your investments? How much can you afford to lose without threatening your intended lifestyle? Remeber that your tolerance for risk will change over time.
- Are you diversified? Do you spread your investments among several options to take advantage of the strengths of each type, avoiding a big loss if one of your investments is not successful? Review and revise your asset allocation plan at various stages in your life if it is deemed warranted.
- Plan for several stages of your ***investment life***. When you are young, more risky growth investments may be acceptable. As you near retirement age, more conservative and accessible investments may be the best.

Investments — Section II

Once you have decided to invest for the future, you have some choices to make. Many investment options are available to you, depending on your ***temperament*** for the task.

Ask Yourself:

- What are my investment goals?
- What is my investment timeline?
- How much risk can I tolerate?
- Do I need help?

The section on Investments I covers the basics of goal setting and investment options. This section will begin where that one ends—what is your temperament for investing? How much are you willing to risk to increase the potential for gain?

Putting Together Your Investment Portfolio

Putting Risk & Return in Perspective

Risk tolerance can be defined by the amount of loss you are willing to accept from your investment choices. If you have a high tolerance for risk, you might be comfortable investing in more risky options, such as the stock in small technology companies, futures contracts or other investments that have great potential—up and down. If your tolerance is low, you might be better off with investment options that will not grow as fast, but will not worry you to death. For your financial and physical health, take a look at your tolerance for risk.

Your objective as an investor is to maximize the growth of your assets with a minimum amount of risk. Any decision to reduce risk most likely will reduce the potential for gain. Wise investors will not assume a risk of loss that is greater than they can afford. Simply put, don't invest the rent money!

Principal. The initial amount of the investment or the market value of the asset purchased.

Return. Growth of value of the principal *(capital gain)* plus any dividend payments.

Risk. The probability that you will lose some or all of the value of your principal, or the rate of return will change.

Rate of Return. Capital gain plus dividend payments, divided by the purchase price.

Volatility. The degree to which the value of an asset rises and falls.

Standard Deviation. A measure *(as a percent)* of the extent to which actual returns of an investment deviation are spread around their average return.

Some investments, like U.S. Treasury bills, have very little risk because their actual rate of return is very close *(or identical)* to the expected return. In turn, these will offer a lower rate of return. Usually, investments that yield a higher rate of return include a greater risk. The purchase of a share of stock in a start-up company *(or any company, for that matter)* may provide a great return, but also may become worthless.

To be either totally risk-averse *(take no risk)* or to be totally risk-tolerant *(ignore all risks)* is unwise.

Investors face three types of financial risks with any investment:

- Loss of the value of the initial investment *(principal)*
- A loss when the value of the principal plus interest does not keep up with inflation
- A loss, some or all, of expected income from an investment

The degree to which an asset's value rises and falls is described as its volatility. Typically, higher volatility equals higher risk. Generally, growth assets *(such as shares and property)* have a higher risk than defensive assets *(such as government bonds and cash)*. The direct relationship between risk and return is the risk/return trade-off. As a rule, the higher the expected return, the higher the risk.

A frequently quoted yardstick is the *sleep test* which recommends that you put your money only into investments that allow you to sleep at night. The charts below illustrate the risk/return trade-off for two types of investments.

Equities (stocks)

Large-Cap Stocks	Average return = 15.3%	Standard deviation = 19%
Mid-Cap Stocks	Average return = 15.9%	Standard deviation = 19%
Small-Cap Stocks	Average return = 14.1%	Standard deviation = 27%

(1979 - 2002, Source: Crandall Pierce)

Treasury Securities

1-year Treasury	Average return = 5.29%	Standard deviation = 1.16%
5-year Treasury	Average return = 6.95%	Standard deviation = 4.38%
10-year Treasury	Average return = 7.43%	Standard deviation = 6.76%
30-year Treasury	Average return = 8.71%	Standard deviation = 10.05%

(1992 - 2002, Source: Arbor Research)

The 1979-2002 period was a long period of significant growth followed by a brief downturn and does not mean that markets will continuously grow. The S&P 500, the most widely used stock index, representing 500 individual companies, showed a 98.35% gain from 1997 through 1999. In 2002, the S&P 500, had a total capital loss of 40.12%. Any past stock performance is not a predictor of future results. The relative risk of an investment is indicated by standard deviation, a statistical measure of the risk of an asset. It is a measure of the extent to which actual returns are spread around their average.

Types of Investment Risk

Market Risk. The economy has natural cycles of expansion and contraction, called the business cycle. During periods of growth, stock prices tend to increase. As people have more faith in the ability of businesses to make profits, they bid up stock prices. The mid- to late 1990s saw a long period of economic growth and a constantly rising stock market. When people have less faith in companies, stock prices stagnate or fall.

Inflation Risk. During periods of inflation, some investments will lose real value because the gain in interest, dividends or appreciation is offset by rising prices that reduce the real value of assets. A 5% gain during a time of 5% inflation results in no real gain. Fixed income investments, such as government bonds and certificates of deposit, are more susceptible to inflation risk.

Some investments appear to benefit from inflation. Housing values tend to move upward with inflation. During a time of inflation, you will gain equity in your home just by living in it. One problem that might arise when you decide to sell is that inflation also is accompanied by higher interest rates. High mortgage rates and high housing values can combine to keep many potential buyers out of the market.

Stock prices may appear to rise along with inflation, but the increase may be offset by the general rise in the price level. Again, when it comes time to sell, the taxable capital gain will include the inflated value. The effects of inflation and taxes reduce the real value of your investment.

Geo-Political Risk. Some investments are more susceptible to domestic or global conflicts or problems. Regional violence may affect oil supplies or other key resources. Conflicts can draw resources away from consumers or producers and adversely affect investments such as foreign stocks and globally traded commodities. Domestic political issues also will affect markets, as environmental, health care, and anti-trust policies affect resource use and consumer demand.

Currency Risk. The value of the dollar compared to the value of other world currencies can affect investment returns. A strong dollar makes U.S. goods more expensive for consumers in other countries. A weak dollar makes U.S. goods cheaper on world markets but makes imports more expensive. This risk is greater for foreign stocks and global mutual funds.

Speculative Risk. ***The bigger they are, the harder they fall*** is an old expression that applies to investments. Some investments offer great potential gain but also a great chance of failure. Stock in some high-technology companies and dot.com start-ups has had tremendous growth in value, only to lose it even faster. Speculators must be very aware of the inherent risk.

Business Risk. All businesses have an inherent risk of loss through poor management or inability to compete successfully. This includes financial institutions, brokerages and publicly held companies. Any investment success is subject to the success or failure of the company. Common stockholders are the last to receive assets if a company is liquidated. FDIC-insured checking, savings, certificates of deposit, and money market accounts typically provide a lower investment return as a trade-off for the lack of business risk.

Assessing Your Own Risk Tolerance

Generally, the risk tolerance assessment starts with information about yourself—age, income, financial goals and your decision-making style. There will be questions about your current savings and investment strategies. The assessment will include questions about what you would do in uncertain situations or in response to losses. All of these will add up to conclusions about which investment vehicles may be best for your temperament.

There are a variety of ways to estimate your tolerance for risk. You can take a self-quiz online at one of the Web sites listed at the end of this section.

Asset Allocation

Asset allocation is the process of dividing investment funds among different types of assets to optimize the risk/reward trade-off based on your specific investment situation and goals. Assets are divided among several investment options. For most, the investment in a home is not part of this plan, but other real estate investments can be. Typically, asset allocation falls into three primary categories: stocks, bonds and cash.

Many investors put their money into different investments without thinking about, much less following, an investment-allocation plan. By using tools available on one of several available Web sites, you can determine an asset allocation that is appropriate to your goals and risk level.

One online advisory group begins the asset allocation decision process with these questions:

- How would you describe your feelings about the risks of investing?
- After you've paid your mortgage or rent, how much of your monthly net income *(income after pay deductions)* is used to pay off other debt such as car loans/leases and/or credit cards?
- How many people *(including your partner/spouse, older parents, and your children)* are your dependents?
- How many months of income do you have saved for an emergency?
- What is your age?
- Barring unforeseen circumstances I plan to retire in...

- Do you own your home or rent?
- What is your marital status?
- What is the total number of years you have been in the workforce full time?
- Do you currently have a brokerage account? If yes, approximately how much do you have invested already?

Source: Financial Muse.com, www.financialmuse.com/wlthtkr/default.asp

Diversification

Diversification is the strategy to balance your investment risk and return by putting together a mix of different stocks, bonds or other assets. By investing in a variety of stocks representing different industries and other types of investments, the impact on the total value of the portfolio of one losing its value is lessened. Putting all of your eggs in one basket is inherently risky. No matter how stable the stock has been, all companies have some potential weakness. Many investment advisors will insist on a combination of growth, income, safe and risky assets, and even some *cash* for opportunities or emergencies.

Balancing a Portfolio

One primary strategy is to allocate percentages of your portfolio assets to different asset classes. For example, you can allocate 40% of your portfolio to bonds and 60% to stocks. Or, you can allocate 40% to stocks and 60% to bonds. The right mix depends on your personal situation and your risk tolerance. An annual review of your portfolio allocation will help to make sure you are on the right track as your situation changes. For example, you might have invested heavily in growth stocks in the late 1990s. Since then, both you and the market have changed considerably. It may be time to reallocate to a mix that is more appropriate.

Some Asset Class Definitions

- **Equities.** Investments that represent an ownership position or equity in a corporation and also represents a claim on a proportionate share of the corporation's assets and profits *(equity securities or corporate common stock)*.
- **Fixed Income.** A security that pays a set rate of interest, such as a bond, money market security or preferred stock.
- **Short-Term Investments.** Assets usually held for one year or less, such as certificates of deposit, Treasury bills, or money market accounts.

Growth Stocks vs. Value Stocks

Growth Stock: Stock of a company, which is growing in revenues and/or earnings faster than the average in its industry or the overall market. Such companies usually pay little or no dividends, using corporate income to finance growth. These stocks are *expected* to increase in market value. They generally trade at high multiples to company earnings and cash holdings.

Value Stock: A stock that is considered to be a good investment at its market price based on its ***fundamentals*** *(factors that are generally considered to be central to the operations and assessment of a particular business)* rather than potential for growth. These stocks generally provide higher dividend returns *(income)*.

Asset Allocation Decisions

Investment advisors may offer several mixes of investments based on the length of time to achieve the investor's goals and tolerance of risk. Listed below are three examples of asset allocation determined by the investor's risk tolerance factor. In each scenario, the system suggests a mix of investments. The allocation mixes generally become more risky with greater potential for growth as the time horizon lengthens.

Conservative

Time:	The goal is fewer than five years away
Risk:	Avoid risk or short-term losses
Asset Allocation:	60% cash, 25% bonds, 10% large-cap stocks, 3% small-cap stocks, 2% foreign stocks

Moderate

Time:	The goal is five to ten years away
Risk:	Some tolerance for risk
Asset Allocation:	15% cash, 35% bonds, 32% large-cap stocks, 10% small-cap stocks, 8% foreign stock

Aggressive

Time:	The goal is more than ten years away
Risk:	High tolerance for risk
Asset Allocation:	0% cash, 20% bonds, 50% large-cap stocks, 17% small-cap stocks, 13% foreign stocks

A balanced portfolio of 60% stocks and 40% bonds and cash is a good starting point when determining your own asset allocation. Managers who run large institutional funds often aim for a balanced portfolio because it provides growth as well as some stability. If you are more conservative, you can reduce the percentage of stocks and increase the percentage of bonds and cash. On the other hand, if you have a longer time horizon or a higher risk tolerance, you can increase the percentage of stocks relative to bonds and cash.

Buying Individual Stocks vs. Stock Mutual Funds

Stock represents partial ownership in the assets of a single corporation. A mutual fund is a pool—usually a large sum of money from many investors. Mutual funds are run by an individual or a team of professional money managers who invest the pool of money into stocks, bonds or other securities. The holdings of the fund are known as its portfolio. An individual may own as little as $25-$50 or much more in the fund.

A mutual fund instantly provides some diversification. By investing in a mutual fund, your money is spread out and diversified among many stocks, bonds and other securities. Your risk is less, since you are not dependent on the performance of one or a few companies.

Reminder: Mutual funds may have a variety of fees and charges for the operation of the fund. They may access a sales charge when the fund shares are purchased, sold or both. All mutual funds have operating expenses that are used to pay for the investment manager and the operation of the fund. The average operating expense for a mutual fund is 1.4%. **No-load funds** do not have sales charges or commissions. You invest in no-load funds directly with the mutual fund company. **Load funds** have sales charges that can range between 5% and 6%. Fees can be charged when the fund is purchased, when it is sold, or as a percentage of the fund value each month. Check the fund's prospectus for these details.

Mutual funds provide:

- **Professional Management**
- **Diversification**
- **Less Homework**
- **Asset Allocation**

How to Choose a Mutual Fund

There are over 13,000 mutual funds, so trying to choose a mutual fund that is right for your investment goals and risk tolerance may seem like trying to find a needle in a haystack. Actually, there are some great Web-based tools that can help you scale down your search. As a starting point, you also may wish to consult annual lists of mutual funds published by Forbes, Money magazine, or Consumer Reports. By paying attention to seven or eight key characteristics, you can put together a list of appropriate funds. Remember—there's no such thing as a perfect mutual fund, and even the most highly regarded funds stumble under certain market conditions. Mutual fund rating services can be found at your public library and through many Web sites.

1. **Research.** First, you need to decide if you plan to do the research yourself or if you plan to purchase the fund from a broker, bank or commissioned planner. If you don't plan to use professional help, you may want to limit your search to no-load funds only. Out of approximately 13,000 funds, about one-third or so are no-load funds.

2. **Selection.** Next, you need to decide what kind of investment you're looking for. Listed in this chapter are many different types of funds to choose from.

   Bond funds
   - Within an IRA or retirement plan—corporate or government
   - Outside an IRA or retirement plan—may wish to consider municipal bonds

   Stock funds
   - U.S. stocks or foreign stocks
   - Company size—large, medium, small
   - Investment philosophy—value vs. growth, income vs. appreciation

3. **Operating Expenses.** The average operating expense is 1.4% for a **stock fund**, but many terrific funds charge less than 1%. **Foreign stock funds** and small company stock funds usually have higher operating expenses. Expenses chip into your return, so you want to look for lower expenses.

4. **Fund Management.** How long has the manager been in charge of the fund? If a manager has been in charge of a fund for at least five years, this will usually give you a good indication of how the fund will be managed in the future.

5. **Performance.** Look at the 3-year, 5-year and 10-year performances of the fund and, most importantly, compare them to an appropriate benchmark. Compare a mutual fund to similar funds. You probably want a fund that's consistently in the top 25% of funds of its type. If it's a small-company fund, comparing it to the S&P 500 doesn't make sense. You can look at rating services *(Morningstar, Value Line)* but take the information with a grain of salt. They are looking at past performance and that's no guarantee of future returns.

6. **Turnover.** Does the manager do a lot of trading? If so, this can push up the operating expenses. It's also likely you will pay more taxes each year, because capital gains distributions tend to be larger with high turnover funds. If you are investing in an IRA or retirement plan, earnings and distributions are tax deferred.

7. **Details.** What is the minimum investment? Can you invest $50 a month to get started?

8. **Get Started.** Contact the fund and get a prospectus and application.

Asset Allocation Example

Karen is 45 years old and recently changed jobs. She had accumulated $35,000 in her 401(k) at her previous employer and she wants to transfer the money to a plan available through her new employer. She has received the list of funds but isn't sure how to decide which ones to invest in and how much to allocate to each one.

Step 1 - Determine your investment goals.
What is Karen saving for?

Step 2 - Determine your timeline.
What is Karen's timeline?
When will she start drawing money out of the plan?
Will she draw it all out at once or over a period of time?

Step 3 - Determine your tolerance for risk.
What is Karen's investment experience?
How much risk does she feel she can stand?
What will her reaction be if she receives her statement and her investments are down?

Step 4- Design your investment *pie (your asset allocation)*.

Given the answers to the questions above, do you think Karen should have an asset allocation that is riskier than a balanced portfolio *(60% stocks; 40% bonds and cash)*? Less risky? About the same?

Step 5 - Choose the individual investments.
Karen will need to gather information about each of the mutual funds offered in the plan.
What kind of mutual fund is it *(stock, bond, balanced)*?
What does the mutual fund invest in *(large-cap stocks, mid-cap stocks, small-cap stocks, foreign stocks, bonds)*?
What are the expenses?
How has the fund performed compared to its peers?

WOMEN & MONEY

Your Asset Allocation Worksheet

Step 1 - Determine your investment goals.

What are you saving for? Short-term? Long-term?

Step 2 - Determine your timeline.

What is your timeline? When will you start drawing money out of the plan?
Will you draw it all out at once or over a period of time?

Step 3 - Determine your tolerance for risk.

What is your investment experience? How much risk do you feel comfortable with?
How will you react if you receive a statement and your investments are down?

Step 4 - Design your investment *pie (your asset allocation)*.

Given the answers to the questions above...
Do you think you should have an asset allocation that is riskier than a balanced portfolio *(60% stocks; 40% bonds and cash)*? Less risky? About the same?

Step 5 - Choose the individual investments.

What kind of investment vehicles are available?
What is the risk/reward profile of each option?
Which investments are most appropriate for me to use?
Will this investment diversify my portfolio?
How much does each instrument cost?
How do I best execute my plan?

Turning Your Investment Goals into Reality

Today

- Determine your short-term and long-term investment goals.
- Collect, organize and keep all financial records relevant to your investments. When you sell stocks or bonds, you will need information about the purchase to determine your tax liability.
- Establish a timeline for your investments. How long will you have to invest? When will you want to have access to your funds?
- Pay yourself first! Establish a process to invest funds regularly. Remember the power of compounding.

Annually

- Continue to educate yourself about investing by reading, consulting Websites and/or enrolling in a personal finance course.
- Seek advice about your plan. Many local agencies offer investment information and help at little or no cost. Professional investment firms usually charge a fee for their services.
- Review your portfolio performance with your investment advisor(s).

Long-term

- Determine your risk tolerance. What are your obligations in the event of problems with your investments? How much can you afford to lose without threatening your intended lifestyle? Remember that your tolerance for risk will change over time.
- Are you diversified? Do you spread your investments among several options to take advantage of the strengths of each type, avoiding a big loss if one of your investments is not successful? Revise your asset allocation plan at various stages in your life.
- Plan for the several stages of your *investment life*. When you are young, more risky growth investments may be acceptable. As you near retirement age, more conservative and accessible investments may be the best plan.

Do You Want More Information About Investments?

U.S. Department of the Treasury
www.treasury.gov
Treasury Direct, www.treasurydirect.gov

U.S. Securities and Exchange Commission (SEC)
www.sec.gov

New York Stock Exchange (NYSE)
www.nyse.com

Getting Started *Answers to Frequently Answered Questions*
www.nyse.com/getstarted/p1044700210497.html

The Nasdaq Market, Inc. (NASD)
Investor Information, www.nasd.com/Investor

Securities Industry Association (SIA)
The Stock Market Game, www.smg2000.org

Federal Citizens Information Center
www.pueblo.gsa.gov

FirstGov.gov, Money and Taxes
www.firstgov.org/Citizen/Topics/Money.shtml

National Association of Personal Financial Advisors (NAPFA)
www.napfa.org, 1-888-fee-only (1-888-333-6659)

Financial Planning Association, www.fpanet.org

National Association of Investors Corporation, www.better-investing.org/index.html

Some Mutual Funds Research Web Sites:
www.morningstar.com
www.valueline.com
www.quicken.com
www.vanguard.com
www.troweprice.com
www.fidelity.com

Risk Tolerance Web Sites:
MSN/CNBC, *Risk Tolerance Quiz*
http://moneycentral.msn.com/investor/calcs/n_riskq/main.asp

Kiplinger.com, *Test Your Risk Tolerance*
http://www.kiplinger.com/tools/riskfind.html

MSMoney.com *Test Your Risk Tolerance*
http://www.msmoney.com

NOTES

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Retirement Planning

A secure and happy retirement is a worthy goal. After years of working, it will be nice to spend the golden years doing the things you enjoy the most. Everyone has different goals for retirement. Some individuals plan to continue working until they are not able to do so. Planning for retirement is something that cannot begin too early and is a critical part of an overall financial plan. Death or disability may make some of these plans ineffective, but everyone should plan as if she will live a long life. The first step is to assess the financial responsibilities you will have after your estimated retirement age.

Setting goals is essential when making any financial decision such as planning for your retirement. Without clearly defined goals, it's hard to know where you are going and how you will get there.

Is retirement a long-term or short-term goal for me?
Am I more than 10 years from retirement? If my retirement is that far away, it's a long-term goal and I should think about the ***accumulation stage***.

Less than 10 years from retirement? If my retirement is that near, I should pay more attention to ***closing in on retirement.***

In this section, you will examine how

- You can assess your retirement goals and need for financial planning.
- You can adjust your spending and saving as your age and retirement plans change.
- You can protect yourself from financial hardship in your retirement years.

Rosemary
29 Years Old
Single, No Children
Human Services Case Worker
Claremont

Retirement Planning Case Study

Things are pretty good these days for Rosemary. She is past the probationary period on her current job and she can relax a bit. All of her evaluations have been excellent and her boss would like to see her enter the management-training program.

When she took the job, she learned all about the New Hampshire Retirement System (NHRS). She contributes 5% of her salary each month. Her employer contributes another 5.9% of the total payroll to the system. She likes the system, but the investments are out of her control until she retires. Although she can put additional money in the NHRS system, she keeps hearing about other options. People she knows who have retired under the system are comfortable, but she wants to make sure that after 30 years of hard work she will have enough money to live comfortably, travel and enjoy life.

Lately, she has been getting calls about tax-sheltered annuities and 403(b)s. She finally figured out that they are the same thing. There are also IRAs and Roth IRAs. Right now she can afford to put more into a retirement fund, and she would really like to take advantage of some of the tax breaks.

This case study helps Rosemary to examine her options and begin to make choices based on her life now.

Rosemary's Monthly Budget

INCOME

Salary	$	2,747
Interest	$	15
Monthly Total	$	2,762

REGULAR CASH EXPENSES

Groceries/Household	$	110
Dining Out	$	75
Entertainment	$	50
Auto/Gasoline	$	63
Personal Hair/Care	$	25
Church Contributions	$	40
Clothing	$	70
Monthly Total	$	433

CREDIT/DEBT PAYMENTS

Credit Cards	$	300
Auto Loan	$	214
College Loan	$	100
Monthly Total	$	614

SALARY WITHHOLDINGS

Federal Income Tax	$	313
Social Security/Medicaid	$	210
NHRS	$	137
Health Insurance	$	25
Life Insurance	$	10
Disability Insurance	$	8
Monthly Total	$	703

MONTHLY BILLS

Rent *(with Roommate)*	$	496
Utilities/Water	$	90
Telephone/Cell Phone	$	75
Cable/Internet	$	37
Auto Insurance	$	85
Monthly Total	$	783

SAVINGS FOR ANNUAL EXPENSES

Car Repairs	$	30
Vacation	$	50
Renter's Insurance	$	10
Gifts/Holidays	$	25
Clothing	$	90
Monthly Total	$	205

Rosemary's Family Worth

ASSETS

Rosemary's Auto	$	3,650
PERS Account	$	11,520
Savings Account	$	1,250
Total Assets	**$**	**16,420**

LIABILITIES

College Loans	$	1,200
Auto Loan	$	2,000
Total Liabilities	**$**	**3,200**
Net Worth	**$**	**13,220**

Rosemary's Retirement Planning

Rosemary is wise to begin planning early for her retirement. As she knows, time is a considerable factor in determining how much she will have when that day comes. Rosemary is 29 years of age. She has already worked five years in her current occupation. Under the current system, she is eligible to retire after 30 years of service at age 59.

How many years until retirement? ____________________

How many years will she live after retirement? ____________________

How much does she already have saved? $____________________

How much will it be worth when she retires? $____________________

(Based on ____% return and ____% inflation and ____% effective tax rate)

How much can she save each month? $____________________

What will it be worth when she retires? $____________________

What is her retirement income need? $____________________

How much is coming in from pensions? $____________________

How much will she need to fund herself? $____________________

How much will she need to have invested? $____________________

How much will she have at her current pace? $____________________

How much is she short? $____________________

How much more will she need to save each month? $____________________

Where Should She Invest?	**Allocation**	**Ideas/Benefits**
Large-Cap Stocks	%____________	______________________________
Mid-Cap Stocks	%____________	______________________ Small-Cap Stocks
Stocks	%____________	______________________ International
Stocks	%____________	______________________ Bonds
Money Market	%____________	
Other	%____________	

Retirement Planning

Roberta
43 Years Old
Divorced
2 Children (20) (18)
Executive Secretary
Bedford

Retirement Planning Case Study

Roberta is determined to retire comfortably someday. After a divorce 10 years ago, she was set back in preparing for that retirement. However, Roberta was able to keep her home and it will be paid off in another 10 years. She has a 20-year-old son and an 18-year-old daughter, both of whom are now in college. Fortunately she and her former husband are sharing in the cost of higher education for their two children.

After the divorce, Roberta and her husband each retained their own retirement savings. Roberta has $42,000 in her NHRS account from a previous job. She has also been contributing to her 401(k) plan at her current job as an executive secretary. Although she currently contributes to Social Security, because she is eligible to receive a NHRS pension, her Social Security benefit will be reduced. She plans to consult a Social Security representative to learn more about these ***windfall*** and ***offset*** provisions. She will also have her 401(k) for additional income.

Roberta is still fearful that this money will not be enough for her to live the comfortable lifestyle she is looking forward to in retirement. Her original goal was to retire at 62, but she knows that won't be possible without setting aside additional money now and she just doesn't have it. So, now she wants to determine if she should retire at 65. Or 68? And, even then, will she have enough income?

Roberta learned the hard way that the old myth that someone will always take care of me isn't true. And, since she's learned she has to make all the decisions, she knows she has to evaluate her retirement goals, look at her resources and see if they match up.

This case study examines how Roberta can look at her goals and make appropriate choices.

Roberta's Monthly Budget

INCOME

Salary	$	3,000
Monthly Total	$	3,000

REGULAR CASH EXPENSES

Groceries/Household	$	315
Dining Out	$	25
Entertainment	$	50
Auto/Gasoline	$	43
Personal Care/Hair	$	25
Clothing	$	60
Monthly Total	$	518

CREDIT/DEBT PAYMENTS

Auto Loan	$	195
Monthly Total	$	195

SALARY WITHHOLDINGS

Federal Income Tax	$	275
Social Security/Medicare	$	229
Health Insurance	$	65
Life Insurance	$	14
Disability Insurance	$	35
401(k) Contribution	$	86
Monthly Total	$	704

MONTHLY BILLS

Mortgage/Property Taxes	$	805
Utilities/Water	$	182
Telephone/Cell Phone	$	40
Cable	$	30
Auto Insurance	$	65
College Expenses	$	200
Monthly Total	$	1,322

SAVINGS FOR ANNUAL EXPENSES

Car Repairs	$	50
Home Maintenance	$	75
Vacation	$	25
Medical/Dental	$	70
Gifts/Holidays	$	40
Monthly Total	$	260

Roberta's Family Worth

ASSETS

Home	$	140,000
Car	$	14,000
NHRS Account	$	42,000
401(k)	$	28,900
Total Assets	**$**	**224,900**

LIABILITIES

Mortgage	$	87,400
Auto Loan	$	10,000
Total Liabilities	**$**	**97,400**
Net Worth	**$**	**127,500**

Roberta has a lot to think about. First, she needs to list her assets. Then, she should answer several questions about her retirement needs. Finally, Roberta should decide how to budget the money she has to invest and where to invest it.

Family Residence *(equity)*	$ 52,600	____________
1997 Volvo *(less balance of loan)*	$ 4,000	____________
NHRS Account	$ 42,000	____________
401(k) Plan	$ 28,900	____________

Roberta's Retirement Planning

How many years until retirement? ____________

How many years will she live after retirement? ____________

How much does she already have saved? $____________

How much will it be worth when she retires? $____________

(Based on _% return and _% inflation and _% effective tax rate)

How much can she save each month? $____________

What will it be worth when she retires? $____________

What is her retirement income need? $____________

How much is coming in from pensions? $____________

How much will she need to fund herself? $____________

How much will she need to have invested? $____________

How much will she have at her current pace? $____________

How much is she short? $____________

How much more will she need to save each month? $____________

Where Should She Invest?	**Allocation**	**Ideas/Benefits**
Large-Cap Stocks	% ________	____________
Mid-Cap Stocks	% ________	____________ Small-Cap Stocks
Stocks	% ________	____________ International
Stocks	% ________	____________ Bonds
Money Market	% ________	
Other	% ________	

Retirement Planning

Early planning is one key to retirement. Take advantage of the power of compounding. The *Rule of 72* is if you divide the interest rate into 72, you will know approximately how many years it will take to double the value of your investment.

At 6% interest, $10,000 will double in 12 years. Each dollar that you have invested when you are 29 years old *(at 6% return)* will be $2 when you are 41 years old. The same dollar will become $4 when you are 53 years old, and $8 when you are 65 years old.

Your Retirement Planning

How many years until retirement? ______________________

How many years do you expect to live after retirement? ______________________

How much do you already have saved? $______________________

How much will it be worth when you retire? $______________________

(Based on ___ % return and ___ % inflation and ___ % effective tax rate)

How much can you save each month? $____________________

What will it be worth when you retires? $____________________

What is your retirement income need? $____________________

How much is coming in from pensions? $____________________

How much will you need to fund yourself? $____________________

How much will you need to have invested? $____________________

How much will you have at your current pace? $____________________

How much are you short? $____________________

How much more will you need to save each month? $____________________

Where Should You Invest?	Allocation	Ideas/Benefits
Large-Cap Stocks	%_____________	____
Mid-Cap Stocks	%_____________	________________________ Small-Cap Stocks
Stocks	%_____________	___________________________ International
Stocks	%_____________	________________________________ Bonds
Money Market	%_____________	
Other	%_____________	

The Accumulation Stage—It' Never Too Early!

It is so many years away! I'll think about it next year!

Why start saving for retirement when you're young? Because young people have a longer time horizon before they retire, which means time is on their side. Retirement savings compound over many years, an advantage in building a retirement nest egg early.

So start NOW to achieve the goal of building that nest egg for a secure and happy retirement.

Closing in on Retirement—Is It Too Late?

You should take charge of your own retirement. In the event of divorce or death, your spouses will not take care of your retirement. Women live longer than men by an average of five years according to the U.S. Bureau of Labor Statistics. Not only do women live longer but it is generally more difficult for them to save for retirement than it is for men for several reasons:

- The difference between the average wages of men and women makes saving more difficult for many women
- Women may choose to take time out from work to care for children and/or parents. This may mean that a woman loses years of service needed for pension or other retirement programs.
- If a woman heads a single-parent household, one paycheck has to meet everyone''s needs.

Is it too late? It's never too late! Even if you have only 10 years until retirement, you can still achieve the goal of building a nest egg for a secure and happy retirement.

Retirement planning is a must for all ages. The sooner you begin to plan, the better. Starting to save and invest early gives you a greater chance to achieve your financial goals and objectives by the time you retire. You probably will not be able to depend on Social Security for all of your retirement needs. And since there are no guarantees that you will build sufficient funds in a company-sponsored pension plan, it's imperative that you invest regularly and wisely to achieve a secure financial future.

Ask yourself:

- What are my financial goals for retirement?
- What options are available to me through my employer or by other means?
- What are the strategies I can use for tax deferral or liability, possible employer contributions, safety of my investments, and access to my funds should the need arise?
- What ways can I save some of my current income to implement my retirement plan?

A secure and happy retirement is a worthy goal. After years of working, it will be nice to spend the golden years doing the things you enjoy the most. Everyone has different goals for retirement.

Some people plan to continue working until they are unable to work. That's a great idea if you are healthy and it makes you happy. What you don't want is to have to work when you should be able to retire. If you plan to work after the normal retirement age, factor it into your overall plan, but still be aware of the possibility that you may not be able to work.

Step One: Assess Your Situation and Make a Plan

The first step is to assess the financial responsibilities you will have after your estimated retirement age. Will you have living expenses, insurance coverage, travel plans, dependents to support, etc.? Setting financial goals is essential when making any financial decision such as planning for your retirement. Without clearly defined goals, it's hard to know where you are going and how you will get there.

Recognizing and formulating a financial plan will help keep you motivated and focused. Knowing and understanding your personal financial goals will help you determine what kind of performance, i.e., growth/yield, income and safety, to seek from your investments. Also realize that there are short-term goals, intermediate goals and long-term goals. Retirement planning is, of course, primarily driven by long-term goals. While in the short term, there are tax consequences to consider as well as the income you forgo to reach your long-term goals.

Ask Yourself

- How long do I want to work and how long do I expect to live in retirement?
- Will my dependents be able to support themselves after my retirement or death?
- What kind of lifestyle do I want to have after my retirement?
- Do I have any current income that I can defer until I retire?
- How much risk am I willing to take with my retirement savings?

Times Have Changed!

Retiring is a lot harder now than it used to be. There are three factors that have changed how people look at retirement should keep them in mind while you are planning for your retirement.

Life Expectancy. People are living longer and retiring sooner. A person who reaches age 65 should plan on living another 25 years, and many will live well beyond 90. A person who wants to retire at age 65 will typically work for 35 to 45 years, during which time she will have to accumulate a retirement fund that is large enough to last 25 years or more.

Inflation. Although inflation has not been a serious problem in the United States in the past decade, it is still a possibility. Inflation makes it more difficult to accumulate resources in advance of retirement, and makes it harder to maintain an adequate living standard over the course of a long retirement. Even at moderate rates of inflation, many retirees will see their cost of living significantly increase during their retirement years. Build a small safety cushion into your plan. One of the downsides of low inflation is that many fixed-return investments pay low returns.

Reliance on Personal Savings. Fiscal pressures on the government and employers will result in working people relying less on Social Security and company pensions and more on personal savings and investments to assure an adequate retirement income. The number of options for individual retirement plans has increased significantly over the last several years.

Retirement Income

One commonly accepted guideline is that you will need 70% of your final annual income to maintain your lifestyle.

- What is your projected income in the last year before your retirement?
- What is 70% of the above amount?

If you retire with an annual income of $50,000 you will need 70%, or $35,000, per year in retirement according to the suggested formula. Part of your retirement income may come from a company or government pension *(like NHRS)* or from Social Security, or a combination of the two. The rest will need to come from your personal retirement plan.

If you intend to preserve your nest egg for your heirs, you should be able to withdraw between 3% and 4% of the total balance each year. This rule of thumb assumes you invest in a diversified portfolio of stocks and bonds with an average annual return of 8%, although some years you'll likely earn more, and other years you'll likely lose money.

In the example above, if you need $35,000 a year in retirement and will receive a pension of $20,000 per year, you will need to draw $15,000 from your investments. To determine the size of your nest egg you'll need, divide $15,000 by .04 *(the withdrawal percent)* —$375,000. If you intend to draw down your nest egg over the period of 25 years, you will not need as much initially, but what happens if you live longer than 25 years? Be prepared!

Factors to Consider in Determining Your Income:

When calculating your retirement income, you may want to take into consideration the following, because it may increase or decrease your living expenses after retirement:

- At retirement, will you own your home? If you are mortgage-free, your living expenses will decrease. Or, do you plan to downsize *(buy a less expensive home)* or *upsize* buy a second, vacation home, or a more expensive home?
- After retirement, will you have health insurance? Your employer-provided health insurance might not continue after retirement. Medicare or Medicaid will be available, but will that be enough?
- After retirement, do you plan any travel or lifestyle changes?
- Do you plan to work part-time in retirement, or do you prefer not to unless you have to?

If you plan to travel, buy a retirement home or incur some other new expense, it will take additional income above the suggested guideline of 70%. You also will need a bigger nest egg if you retire early *(generally before age 65)*.

How Many Years Will You Have to Plan for Retirement?

- What is your current age?
- At what age do you plan to retire?
- Subtract your current age from your projected retirement age to determine the number of years you have to plan.

What Resources/Options are Available to You to Plan?

- Does your employer have a retirement plan?
- Will you be eligible to receive Social Security?
- Do you have other long-term investments?
- Are you eligible for any survivor benefits?

Step Two: Implement, Monitor and Adjust Your Plan

Once you set your financial goals, you need to determine your financial objectives. Depending on your type of work, age and income, you may have many retirement planning investment choices.

Choose Your Strategies:

There are a variety of strategies to include in your overall retirement plan. These tools can enhance your investment return, reduce your risk, or simplify your investment process.

When determining your investment strategy, you may want to consider:

- How much risk can I tolerate with the funds that I am saving for retirement?
- How many years do I have until retirement?
- How have I invested my other long-term investments?

Asset Allocation

Asset allocation is the process of dividing investment funds among different types of assets to optimize the risk/reward tradeoff based on your specific investment situation and goals. Assets are divided among several investment options. For most investors, the investment in a home is not part of this plan, but other real estate investments can be. Typically, asset allocation falls into three primary categories: stocks, bonds and cash.

Many put their money into different investments without thinking about, much less following an investment-allocation plan. By using tools available on several Web sites, you can determine an asset allocation that is appropriate to your goals and risk level.

Investment advisors may offer several mixes of investments based on the length of time to achieve the investor's goals and tolerance of risk. Listed below are three examples of asset allocation determined by the investors' risk tolerance factor. In each scenario, the system suggests a mix of investments. The allocation mixes generally become more risky with greater potential for growth as the time horizon lengthens.

Conservative Allocation

Time	The retirement goal is fewer than five years away
Risk	Reduce risk or short-term losses
Asset	25% cash, 55% bonds, 15% large-cap stocks,
Allocation	3% small-cap stocks, 2% foreign stocks

Moderate Allocation

Time	The retirement goal is five to 10 years away
Risk	Some tolerance for risk
Asset	15% cash, 35% bonds, 32% large-cap stocks
Allocation	10% small-cap stocks, 8% foreign stock

Aggressive Allocation

Time	The retirement goal is more than 10 years away
Risk	Tolerance of risk in the short term
Asset	5% cash, 20% bonds, 50% large-cap stocks
Allocation	15% small-cap stocks, 10% foreign stocks

Note: You may want to shift your investments to a more conservative asset allocation in retirement. This is especially important if you are drawing on your portfolio for income. There also might be reasons, to keep some portion of your investments in stocks. Without any growth in your portfolio, inflation will continue to erode the value of your nest egg. This is an area where the advice of a retirement planning professional will be very helpful.

Diversification

Diversification is a strategy designed to reduce exposure to risk by combining a variety of investments, such as stocks, bonds, and real estate, which are unlikely to all move in the same direction. Whether working with a professional advisor or going it alone, an investor has the option of putting all of her eggs in one basket or diversifying her financial assets. Diversification spreads out investment, market and other risks among the several investment options.

A person may hold 50% of a total portfolio in the common stock of several companies, 20% in bonds, another 20% in more speculative investments, and the remainder in more liquid assets such as certificates of deposit or savings accounts. Purchasing a diversified mutual fund is an easy way of diversifying a portfolio. A diversified mutual fund is one that invests in a wide variety of securities and has no more than 5% of its assets in a single security.

Older workers who have accumulated a retirement fund of stock in their company face the question of loyalty versus diversification. History has shown that even solid companies with long periods of growth and dividend payments can run into short-term problems that can wipe out large portions of retirement funds. Loyalty can have a high price.

Dollar Cost Averaging

Dollar cost averaging is designed to reduce the volatility of your investments. When regularly purchasing or selling investments such as stocks or mutual funds, the most difficult thing is to, as the old saying goes, **buy low and sell high**. Use the strategy of dollar cost averaging to avoid trying to time the market. Securities, typically stocks or mutual funds, are purchased in fixed dollar amounts at regular intervals, regardless of what direction the market is moving. The purchases made when the price is up are averaged with those made when the price is down. The net result is intended to represent an average market price over time.

For example, over the course of a year, the price of your mutual fund fluctuated from $8.00 to $13.00. Each month, you invested $100. One month you paid $8.00. Another month you paid $13.00. In the other months, you paid something in between. At the end of the year, you invested $1,200 at an average of $10.00 per share. Looking at the average cost is much easier than trying to decide exactly when to buy shares.

Retirement Planning Investment Vehicles

Social Security

For many, retirement planning begins with Social Security. For those who participate in Social Security, or who have contributed for the minimum length of time, full benefits will begin upon retirement at age 65, or reduced benefits at age 62. People with birth dates of 1960 or later will receive full benefits at age 67. The standard retirement age under Social Security will then be 67. Spouses or dependent children also may benefit from Social Security. The Social Security system was designed to assist older individuals who are beyond working age. Unfortunately, Social Security benefits were not designed to be the only source of income in retirement and will not be enough to ensure a continuation of most people's lifestyles.

For more information about recent changes in retirement ages and benefits, go to the Social Security Administration Website. Social Security will also pay disability survivor benefits to eligible participants. If you contact Social Security for information, be sure to have your Social Security number available for reference.

Your Social Security number is a critical part of your personal identification. All persons over 1 year of age are required to have a Social Security number. Not only is it used to keep track of your payments and benefits, but it also is used for tax identification and for many other financial transactions. Your Social Security Number is unique to you and is yours for life.

Some employees of federal, state and local government agencies and nonprofit organizations, and some people who worked in other countries, may be eligible for pensions based on earnings not covered by Social Security. This can affect the amount of your Social Security benefits.

If you will receive a pension for work not covered by Social Security *(such as government or foreign employment)*, any Social Security benefits you may be eligible to receive as a spouse or widow/widower on someone else's record may be reduced.

Social Security is not as secure or as plentiful as it once was. In 1960, there were slightly over five workers paying into the Social Security system for every person collecting benefits. In 1999, there were less than three and a half workers paying into the system for each beneficiary. By 2010, the number of payers for each retiree is expected to drop to three.

You can work while you receive Social Security benefits. And when you do, it could mean a higher benefit for you. That can be important to you later in life. It also could increase the future benefit amounts your family and your survivors could receive. In 2000, the law that determines what happens when you work and get benefits at the same time was changed. While you're working, your benefit amount will be reduced only until you reach your full retirement, not up to age 70.

This formula is used to determine how much your benefit must be reduced:

- If you are **under full retirement age** when you start receiving your Social Security payments, $1 in benefits will be deducted for each $2 you earn above the annual limit. For 2003, that limit was $11,520. In 2004, the amount increases to $11,640.

- **In the year you turn full retirement age,** $1 in benefits will be deducted for each $3 you earn above a different limit, but only counting earnings before the month you reach the full retirement age. If you reach full retirement age of 65 years and 2 months in 2003 (you were born in 1938), the limit on your earnings for months before full retirement age is $30,720. For people born in 1939 who will reach full retirement age of 65 years and 4 months in 2004, the limit increases to $31,080.

- **Starting with the month you reach full retirement age,** you can get your benefits with no limit on your earnings, but be sure to contact the Social Security Administration at the beginning of that year to determine whether you also may receive some or all of your benefits for the months before you reach full retirement age.

Employer-Sponsored Plans

Defined Benefit Pension Plan

This type of retirement plan is provided by your employer and is structured to generate a certain predetermined annual retirement benefit. The formula used to determine defined benefit pensions is typically based on final or highest salaries and years of employment. An explanation is usually included in your employee benefit handbook. Each employer's pension agreement has different benefits. Some unions and government agencies have large pension funds that are available to certain employees.

Pension funds for most public employees are typically administered by a quasi-governmental organization. Some state and local government employees with pension plans are exempt and do not contribute to Social Security. Some federal employees may have government-sponsored pension plans.

Defined Contribution Plans

A retirement plan where you determine the amount contributed and the payouts received fluctuates based on investment performance. Some employers use matching contributions to help fund it. Today, the most popular defined contribution plan is a 401(k) plan.

401(k)

Many large employers offer their employees a 401(k) retirement plan. These are sometimes called **salary-reduction plans**. As an employee, you agree to put part of your salary into a special savings and investment account with an investment company, insurance company or bank trust department. 401(k) plans offer a variety of investment vehicles from individual stocks or mutual funds to money market accounts.

The income you invest in a 401(k) is not taxable income in the year you earn it. For example, if you earn $35,000 but put $5,000 into a 401(k), your gross income subject to taxes would be $30,000. Earnings that accumulate in the account are not taxed until you start making withdrawals, usually after you reach age 59 1/2. If you withdraw earlier, you'll have to pay taxes on the money and a 10% penalty.

Many companies that offer 401(k) plans also match the employees' contributions. The company might contribute 50 cents to the account for every dollar contributed by the employee. The advantage of a 401(k) over an IRA is that an IRA doesn't have an employer-matching contribution program. For public employees or employees of non-profit firms, a similar plan, a 403(b), is available.

403(b)/457 Plans

403(b) and 457 plans are a special type of salary reduction retirement savings plan—also known as a ***tax-sheltered annuity or deferred compensation***–that is available only to employees of educational institutions and other qualifying non-profit organizations.

Employee Thrift and Savings Plans

These usually require after-tax contributions, which are either wholly or partially matched by the employer's contributions. Even though there are no immediate tax benefits, you get something for nothing *(your employer's contribution)*, and your savings will benefit from accumulating tax deferral.

Keogh Plan

This is a formal arrangement in which the owner or owners of an unincorporated business *(a sole proprietorship or a partnership)* provide tax-deferred retirement benefits to the owners, or partners and their eligible employees, if any.

Simplified Employee Pension Plan (SEP-IRA)

A SEP-IRA is a retirement savings plan frequently used by self-employed people and small businesses. Instead of maintaining a separate pension plan, as is required with a Keogh, SEP contributions are deposited into an IRA.

Individual Retirement Accounts (IRA)

This is a tax-deferred retirement account to which anyone with earned income can contribute.

Traditional IRA

The earnings on your IRA are tax-deferred. For tax purposes, depending on how much money you earn, you may be eligible to deduct your IRA contribution from your non-tax-deferred investment income. There are penalties for withdrawing money from your traditional IRA before you reach the age of 59 1/2, and withdrawals will be taxed as ordinary income.

Roth IRA

This relatively new type of IRA was named after the late Senator William Roth of Delaware, who championed the Taxpayer Relief Act of 1997. You may not deduct contributions to your Roth IRA from your taxable income, but growth in your Roth IRA is tax-free.

You can withdraw your original contributions from a Roth IRA any time you like for any reason, tax free. The earnings typically have to stay in the Roth IRA until age 59 1/2. However, iIf you have had your Roth IRA for more than five years, you may be able to ***withdraw the earnings*** without paying penalties and/or taxes. The following conditions apply for withdrawal without paying penalties and/or tax penalties: you have reached the age of 59 1/2, you have become fully disabled or you are using the money to buy your ***first home*** *($10,000 lifetime limit)*. You also may withdraw from your Roth IRA to pay for college penalty-free, although you''ll have to pay regular income taxes.

More About Roth IRA

- If married, you must file jointly.
- Income must be below $95,000 for singles; $150,000 for couples to contribute full amount. The phase-out applies above those limits.
- Either you or your spouse must have earned income.
- Unlike traditional IRAs, you can contribute past the age of 70 1/2 if you have earned income, and you do not have to begin withdrawing at age 70 1/2 *(or at any age)*.
- You can set up a Roth IRA at a bank, with a broker or a financial planner, or on your own with a no-load mutual fund company.
- IRA owners choose the investments—mutual funds, individual stocks or bonds, CDs, etc.

In some cases, you may convert your traditional IRA to a Roth IRA by paying taxes on the full amount of the converted amount in the year of conversion. As with any retirement investment, you should consult a financial professional to learn all the details.

IRA Withdrawal Options

Withdrawing funds from your IRA can be a complicated proposition, if you want to avoid penalties and taxes.

If you withdraw funds prior to age 59 1/2, there will be a 10% penalty tax on the early withdrawal. The 10% penalty does not apply to distributions payable to a beneficiary upon the death of an IRA owner or payable to his or her estate. If you are younger than age 59 1/2 and you need to tap into your IRA, you can avoid the penalty *(but not ordinary income taxes)* by setting up a series of *substantially equal periodic payments* based on your life expectancy. The payments must continue for five years or until you turn 59 1/2, whichever comes later. Another possible alternative is to properly transfer the IRA as an inherited IRA. The mechanics are tricky and the penalties for not following the rules are harsh, so it is recommended you consult a financial planner or accountant to ensure a proper transfer.

You must begin IRA withdrawals by April 1 following the year you turn age 70 1/2. Failure to make minimum withdrawals can subject your funds to a 50% tax penalty on the difference between the amount you should have received and the amount you did receive. Minimum withdrawals must be made each year, taking into account your life expectancy. Roth IRAs are exempt from required withdrawals.

What Happens to Your Retirement Plan if You Change Employers?

If you leave an employer, you have some options:

- Leave the money where it is. As long as you have more than $5,000 in the plan, you are generally allowed to leave it as is.
- Roll it over to an IRA. Make sure you understand any fees or commissions associated with the IRA.
- Roll the money into your new employer's retirement plan.
- Cash it out. This option is the least attractive because you will pay ordinary income taxes on the amount withdrawn. If you are under 59 1/2 years old, you will pay a 10% penalty.

IRA Annuity

Retirees may use their IRAs to purchase an annuity. Buying an annuity that begins regular payments by age 70 1/2 satisfies the IRS's withdrawal rules. Like an annuity, it can be purchased for your life expectancy or jointly for the combined life expectancies of you and your spouse or other beneficiary. One advantage of this option is that it guarantees payments for your lifetime or, in the case of a joint annuity, for the lifetime of both you and your beneficiary. There also may be a provision in the annuity that provides for payments to heirs.This strategy may not be recommended by financial planners. As with all strategies, seek advice from a professional.

Annuities

An annuity is a formal contract, usually issued by an insurance company, guaranteeing a payment to the annuitant *(the purchaser of the annuity)* at some future time. There are two basic types of annuities you can buy: fixed, according to a contract, and variable, depending on the market value of the investment.You can purchase a deferred annuity with a single sum or by making periodic payments. The income is not taxed until it is withdrawn from the annuity.

Annuity Settlement Options

There are many ways to receive your retirement income, depending on the choices available to you. Some pensions require you to take a monthly payment while some plans may allow you to take a lump-sum payout. Some allow you to choose. When choosing the best option for you, many things need to be considered. This is a good time to seek professional assistance.

A Few Key Terms and Rules Apply to Many of These Options:

Mandatory Distribution Rule

A rule requiring that withdrawals from an IRA and other retirement plans must begin by April 1, following the year you turn age 70 1/2. Minimum withdrawals must be made each year, taking into account your life expectancy.

Rollover

A rollover is a tax-free transfer of funds from one tax-deferred account to another tax-deferred account. The two most common examples of a rollover are transferring tax-deferred funds from one IRA to another IRA, and transferring funds held in your employer's tax-deferred investment plan, usually a 401(k), to your privately held tax deferred account. Rollovers are especially useful to your retirement planning if you change jobs frequently.

Contribution Limits and Catch-up Contributions for Individuals 50 and Older

The Economic Growth and Tax Relief Reconciliation Act of 2001(EGGTRA) established contribution limits and provisions for *Special Catch-up Contributions* for older individuals who may not have had the opportunity to save for retirement in earlier years. The contribution limits and *catch-up* amounts are summarized below:

IRA and Roth IRA	Maximum Contribution	Maximum with Catch-up Provision*
2004	$3,000	$3,500
2005	$4,000	$4,500
2006	$4,000	$5,000
2007	$4,000	$5,000
2008	$5,000	$6,000

* Those who reach age 50 by the end of the year can contribute an additional $500 in 2002-2005 and an additional $1,000 for 2006 and each subsequent year.

Simple IRA	Maximum Contribution	Maximum with Catch-up Provision*
2004	$ 9,000	$ 10,500
2005	$ 10,000	$ 12,000
2006	$ 10,000	$ 12,500

** The catch-up contributions also are eligible for employer-matching contributions.*

Company Plans*	Maximum Contribution	Maximum with Catch-up Provision**
2004	$ 13,000	$ 16,000
2005	$ 14,000	$ 18,000
2006	$ 15,000	$ 20,000

** Includes 401(k), 403(b), and Section 457/507 Plans.*
** Those who reach age 50 by the end of the year can contribute an additional $3,000 in 2004, $4,000 in 2005, and $5,000 in 2006 and each subsequent year.*

SEP-IRA Contribution Limits

The 2004 SEP limit is now the 25% of compensation that was intended by the original tax act. For 2004, 25% of compensation of up to $200,000 can be contributed to a SEP, but regardless of the amount of compensation, the SEP contribution is limited to $40,000 per year.

If you are an employee of a company that offers a SEP for 2004 at the highest percentage, the 25%, and your income is $200,000, your employer is limited to making a $40,000 contribution to your SEP. If you are self-employed, the 25% nets down to 20%. If your 2004 net earnings from self-employment were $200,000, you would be limited to a maximum SEP contribution of $40,000 *(20% of the $200,000)*. That's a huge increase over the $25,500 maximum for 2001.

Some Other Retirement Plan Considerations

- New rules have liberalized the ability to roll over money between employer plans [401(k) to 403(b)] to deferred compensation and to and from IRAs.
- Proper designation of your retirement plan beneficiaries is important. You should name a primary beneficiary *(or beneficiaries)* who will receive your benefits in the event of your death, and a contingent beneficiary *(or beneficiaries*) in case your primary beneficiary precedes you in death.
- Some defined benefit plans allow retiring workers to take a lump sum rather than a pension. This decision must be made very carefully, considering such factors as how comfortable you are with investing and managing your own money, and that you will potentially pay commissions and fees to invest the lump sum in a rollover IRA.

Assess, Adjust and Protect: Some Guidelines to Consider Depending on Your Age

While You are Working:

- Make sure you have an emergency fund for those unexpected, unplanned expenses, usually three to six months' of living expenses.
- Make sure you are engaged in proper risk management and have adequate and continuous insurance coverage, i.e., medical, life, disability, property, casualty and liability.
- Consider the consequences of job-hopping, and it's impact on your pension benefits.
- Assess the consequences of any rollover into an IRA or other tax-deferred retirement plan.
- Make certain you evaluate your retirement plans on an annual basis.
- Be sure you are thorough with your tax planning so you can maximize your after-tax dollars.

Prior to Age 40:

- Make regular uninterrupted contributions to an IRA or other retirement options as well as your company 401(k) or 403(b) if available.
- Consider purchasing a home so that when you retire, your housing costs will be controlled.
- Meet with your employer's pension department to discuss options available to you.
- Meet with an attorney and begin or review your estate plan.

Ages 40-49:

- Review the Social Security information, which is provided to you every year near your birthday. Make sure your account is properly credited for your income and years worked.
- Start looking at your projected income from Social Security.
- Do a net worth evaluation and develop a plan for retirement funding.
- Actively manage your retirement funds and IRAs with appropriate diversification, emphasizing capital-gain-oriented investments.
- Adjust your will at least every three years. A new will also should be done if you move, have children, get divorced or experience any other life-changing events.

Ages 50-59:

- Regularly re-assess your status with your employer's pension plan.
- Adjust your projected income and expenses for retirement. Be sure to factor inflation into your projected budget.
- Confirm your beneficiary designations for life insurance, IRAs, pensions etc.
- Consider joining the American Association for Retired Persons (AARP) and take advantage of their information.

Ages 60-64:

- If you are considering taking an early retirement, discuss it with your financial advisor, company personnel department and the Social Security Administration.

Retirement Planning

- Collect the documentation necessary for meeting with Social Security, i.e., you and your spouse's Social Security cards, proof of your ages, marriage certificate, and a copy of your latest income tax withholding statement (W-2).
- Before making any major decisions such as selling your home, weigh the pros and cons.
- Re-assess your assets and liabilities. What do you owe? What is the duration of the loans?
- Prepare a detailed cash flow sheet from estimated retirement year until age 95, taking inflation into consideration.
- Live on your projected income for at least a month, to see if your estimated expenses are realistic.
- Look at your and your spouse's existing activities, hobbies, interests and support network of friends.

Just Before Retirement:

- Establish your retirement income and expense budget
- Meet with your employer's benefit department to assess exactly what your pension benefits will be, what entity will be sending your income checks, and when the first check will arrive. Also, check to see if you have any vacation time, whether there are any special annuity benefits, and whether supplemental medical or hospital insurance is available.
- Register with the Social Security Administration at least three months before retirement.
- Investigate any prior entitlement to partial pensions from past jobs.
- Consider long-term care insurance and a Medicare Supplemental policy if you are eligible for Medicare.

Looking for More Resources About Retirement Planning?

Social Security Administration
(800) 772-1213 or www.ssa.gov
Find Your Retirement Age, www.ssa.gov/retirechartred.htm
Social Security Online Office Locator: http://s3abaca.ssa.gov/pro/fol/fol-home.html

Internal Revenue Service
www.irs.gov, Information on retirement plans
www.irs.gov/retirement/index.html

American Association of Retired Persons (AARP)
601 E Street N. W., Washington, DC 20049. Phone: (202) 434-2277.
http://www.aarp.org

Fidelity Investments Retirement Planning Center
http://personal.fidelity.com/retirement/retcalcframe.html

University of New Hampshire, Cooperative Extension
Publication Center, 16 Nesmith Hall, 131 Main Street
Durham, NH 03824 (603) 862-2346 or www.ceinfo.unh.edu.
Financial Security in Later Life Initiative—Legal Check Up Workbook/Seminars
Additional resources found on: www.reeusda.gov//financialsecurity

Looking for More Resources About Retirement Planning?

American Savings Education Council
www.asec.org/toolshm.htm.

Administration On Aging
Washington, DC 20201, Phone: 202 619-0724 or www.aoa.gov

Women's Institute For A Secure Retirement (WISER)
1920 North Street, N.W., Suite 300, Washington DC, 20036 or www.wiser.heinz.org

WOMEN & MONEY

NOTES

NOTES

Identity Theft

One of the unfortunate side effects of the information age is identity theft. Identity theft occurs when someone takes your name, Social Security number, date of birth or other personal information such as credit card numbers, insurance information or bank account numbers, and uses it to establish new credit, run up debts or take over existing accounts. It can ruin your good credit record and may leave you with unwanted bills and a lot of headaches. Consumers must be proactive about protecting their personal and financial information.

It isn't just thieves and scams that start the problems. Many legitimate businesses sell or share information about their clients without knowing how it will be used. Follow your bank or insurance company instructions, included within their *Privacy Statement*, to stop them from selling your name and personal information. Many people are now shopping online or by catalog. Instruct these vendors not to sell your information to other vendors. Did you ever wonder why you buy from one vendor and suddenly receive five new catalogs from other suppliers?

After reviewing this section,

- You can assess your risk of identity theft or other financial crimes.
- You can adjust your behaviors to better prevent problems.
- You can protect yourself and your family from the costs of identity theft.

Lisa
30 Years Old
Single
Secretary
Pelham

Identity Theft Case Study

Like most people, Lisa sent out letters and bill payments from her family mailbox at home, putting up the flag to alert the carrier that there was mail to be picked up. She would leave payments for her credit cards as well as loan payments for her car at her mailbox.

Lisa didn't think that her personal mail could be stolen from her own home. She thought if someone was snooping around her mailbox, one of the neighbors would notice. Unfortunately, before Lisa found out about it, thieves had been stealing her mail for five months.

It began with late notices arriving in the mail, notices for bills that she had mailed payments for weeks earlier. This had to be a mistake. Lisa called the credit card company and explained that she had already paid the bill, but, to be safe, she would mail another check to avoid a penalty. She put the payment in the mail the following morning.

On another occasion, Lisa received bills from several stores she hadn't shopped in recently. Lisa also began to receive phone calls to inquire about thousands of dollars in overdue payments on credit cards in her name that she had never requested. When Lisa denied making the purchases, the investigator used an accusatory tone saying that she better pay up or she'd be taken to court.

Lisa felt helpless. On the advice of a friend, Lisa paid to have her credit report sent to her. When she read the report, she was horrified. It was pages thick, and showed that she had 23 open credit cards from stores around the country.

This case study will examine how Lisa can erase the damage that the identity thieves inflicted on her credit record. It will also show Lisa ways to prevent this from happening again.

Lisa’s Monthly Budget

INCOME

Salary*	$ 3,000
Monthly Total	$ 3,000

* 36,000 Yearly Salary

REGULAR CASH EXPENSES

Groceries/Household	
Dining Out	$ 200
Entertainment	$ 75
Dry Cleaning	$ 50
Auto/Gasoline	$ 63
Personal Care/Hair	$ 25
Clothing	$ 110
Monthly Total	$ 523

CREDIT/DEBT PAYMENTS

Credit Cards	$ 200
Student Loan	$ 300
Monthly Total	$ 500

SALARY WITHHOLDINGS

Federal Income Tax	$ 376
Social Security/Medicare	$ 229
Health Insurance	$ 25
Life Insurance	$ 10
Disability Insurance	$ 8
401(k) Contribution	$ 200
Monthly Total	$ 848

MONTHLY BILLS

Rent	$ 500
Utilities/Water	$ 150
Telephone/Cell Phone	$ 75
Cable/Internet	$ 100
Auto Insurance	$ 80
Monthly Total	$ 905

SAVINGS FOR ANNUAL EXPENSES

Car Repairs	$ 50
Vacation	$ 50
Monthly Total	$ 100

Lisa’s Family Worth

ASSETS

Auto	$ 14,000
401(k)	$ 12,000
Total Assets	**$ 26,000**

LIABILITIES

Credit Card Balance	$ 1,000
Student Loans	$ 45,000
Total Liabilities	**$ 46,000**
Net Worth	**($ 20,000)**

Identity Theft

Do you want to know your risk of identity theft?

First, take a good look at your own behaviors.
Assess your potential to be a victim of identity theft.

Ask yourself:

- How careful am I with how I use my personal financial information?
- Do I give others personal information on the phone or Internet?
- Do I watch what kinds of personal information I put in my trash?
- Do I take unnecessary chances of losing my purse or wallet?
- Do I really know how my bank and other businesses use the information I give them?

Identity theft is a white-collar crime and many police departments do not have the expertise or resources to investigate each case. In fact, violators are caught less than 10% of the time. These criminals may be a part of a crime ring or may steal several identities and leave behind a trail impossible to unravel. Unfortunately, the victim may be left with a ruined credit history and the complicated and time-consuming task of regaining their financial good health and good name. According to the Privacy Rights Clearinghouse, the average identity theft case involves about $18,000. This does not include cases where the thief secures employment using a stolen identity and employers may suffer additional losses.

Don't be a victim of crime! Awareness and proper handling of your personal information is key to protecting yourself from fraud and corruption. To receive more information on this topic or to file a consumer complaint, contact the Privacy Rights Clearinghouse Hotline or Web site.

Following these simple hints can help you protect your good name and good credit:

- Close unused bank accounts. Immediately close your accounts and establish new ones if your wallet or purse is stolen.
- Keep your receipts, bank statements and credit card numbers in a safe place and shred them when you are ready to dispose of them.
- When you make a credit card purchase, ask for the carbons if the vendor is not using carbonless forms.
- Never give out your personal information over the phone. This includes people who call you to solicit a purchase or a donation. Also, beware of people calling to *confirm* personal or financial information. If you are interested in making a purchase or sending a donation, get a phone number and address and verify with the **New Hampshire Attorney General** or your local **Better Business Bureau** that they are legitimate.
- Review your credit card statements, utility bills and bank statements for accuracy or for any unusual activity. Immediately report any discrepancy.

Identity theft can happen to just about anyone. Don't get lulled into a false sense of security by believing *it can't happen to me.*

Identity Theft

Many people think...

- I don't have much money; no one would want to steal my identity.
- If I share my personal information with my bank, no one else will ever get hold of it.
- If I lose my purse, all I have to do is cancel my credit cards and I won't have anything to worry about.
- As long as only I know my password, no one else can access my online accounts.
- Leaving my bill payments in my home mailbox is safe.

Identity Theft IQ Test

Are you at risk for identity theft? Determine your identity theft ***Identity Quotient*** by responding YES or NO to the following statements.

_____ I receive several offers of pre-approved credit cards every week. *(5 points)*

_____ I do not shred the credit card offers before I put them in the trash. *(5 points)*

_____ I carry my Social Security card in my wallet. *(10 points)*

_____ My driver's license has my Social Security number (SSN) printed on it, and I have not contacted the Division of Motor Vehicles to request a different number *(5 points)*

_____ I do not have a PO Box or locked, secure mailbox. *(5 points)*

_____ I use an unlocked, open box at work or at home to drop off my outgoing mail. *(10 points)*

_____ I carry my military ID in my wallet at all times. *(10 points)*

_____ I do not shred banking and credit information when I throw it in the trash. *(10 points)*

_____ I provide my SSN whenever asked, without questioning how the information will be safeguarded. *(10 points)*

_____ I provide personal information orally without checking to see who might be listening. *(5 points)*

_____ I am required to use my SSN as an employee ID or at college as a student ID. *(5 points)*

_____ My SSN is printed on my employee badge that I wear at work or in public, it is posted on my time card in full view of others, or it is on other documents frequently seen by others in my workplace. *(10 points)*

_____ I have my SSN and/or driver's license number printed on my personal checks. *(10 points)*

_____ I am listed in a "Who's Who" guide. *(5 points)*

_____ I carry my insurance card in my wallet with my or my spouse's SSN as the ID number. *(10 points)*

_____ I have not ordered a copy of my credit reports for at least two years. *(20 points)*

_____ I do not believe that people would sort through my trash looking for credit or financial information or for documents containing my SSN. *(10 points)*

Each one of these statements represents a possible avenue for an identity thief. Total your ***IQ*** by adding the points next to each statement you gave a **YES**.

Understanding your score...

100 or more points. You are at high risk of identity theft. You may want to consider purchasing a paper shredder. Become more aware of your document handling behaviors. Start asking why people want your personal financial information.

50-100 points. Your chances of being victimized are about average. Unfortunately, the chances are higher if you have good credit.

0-50 points. Congratulations. You have a high ***IQ***. Keep up the good work and don't let your guard down.

What is Identity Theft or Identity Fraud?

Criminals realize it's the simplest scam in the world. No one has to see your face to know who you are.

Identity theft is a criminal offense. It occurs when a person knowingly transfers or uses, without lawful authority, a means of identification of another person with the intent to commit or to aid or abet any unlawful activity that constitutes a violation of federal law or that constitutes a felony under any applicable state or local law.
Source: Identity Theft and Assumption Deterrence Act

Identity fraud happens when someone literally steals your identity and uses it for personal gain. Usually, a criminal acquires a certain amount of personal information such as a driver's license number, address, name, social security number or credit cards under the assumed name, and diverts the victim's mail, rents apartments, leases cars, and much more. Once an identity thief starts using a victim's personal information s/he usually won't stop until that victim's credit is completely ruined, the credit is flagged, or s/he is caught. Unfortunately, identity thieves are rarely caught. There may be no other crime that's easier, and easier to get away with, than identity theft.

Identity information routinely consists of three elements:

- What you know *(account numbers, passwords or personal identification [PIN] numbers)*
- What you have, such as bank accounts, credit cards or debit cards
- What you are, such as your signature, fingerprint, or photograph

Any of these can be used to steal your identity.

How Serious is the Problem?

Identity fraud is very serious business. Identity theft is the fastest-growing white-collar crime, and no one is immune. In many cases, unsuspecting victims may not discover the fraud until they decide to make a major purchase.

Law enforcement officials describe identity theft as *the fastest-growing crime in the nation* and *the leading form of consumer fraud*. The average financial loss to a victim of identity fraud is estimated to be $36,000. Investigations of financial crimes involving identity fraud totaled $442 million in 1995, $450 million in 1996, and $745 million in 1997. The number of fraud complaints jumped from 220,000 in 2001 to 380,000 in 2002, and the dollar losses consumers reported suffering because of fraud grew from $160 million to $343 million.

The **Internet Fraud Complaint Center** (IFCC) received over 75,000 complaints of Internet fraud in 2002. Although males were the largest group (71%) complaining of Internet theft, women were victimized too. As more women become comfortable using the Internet and begin purchasing more online, the possibility of theft increases.

Senior citizens often are targets of criminals using fraud and identity theft to wipe out savings accounts and wreak havoc on credit ratings. In 2001, there were approximately 500,000 identity theft victims, rather, people who actually filed a police report. It costs banks and credit card companies about $5 billion because they ultimately pick up the tab. Due to the rapidly increasing cases of identity theft, the Federal Trade Commission introduced the *ID Theft Affidavit,* which simplifies the process for consumers who are contesting fraudulent debts and illegally opened accounts.

No one wants to lose everything they've worked for *(savings, credit, etc.)* to a con artist. Besides the financial burden, clearing your name is a time-consuming and emotionally draining process. Victims fear they will never be reimbursed and forced to pay the thieves' bills. A victim's credit can be completely sabotaged, which makes purchasing a home or car very difficult. Erasing the damage the thieves have done is a major headache. By becoming educated on the matter, you will not become a victim. Or if you do happen to find yourself victimized, you'll know exactly what to do and who to contact to get your life back.

This crime does not discriminate. Think of the famous celebrities you hear about all the time. With the millions of dollars famous people accumulate, one would think these celebrities would have the best security there is to offer. Even so, no one is safe from identity theft. Two very recognizable celebrities were victims of identity theft: talk show host Oprah Winfrey and golfer Tiger Woods. If it can happen to them, it can happen to anyone.

How Do These Thieves Get My Information in the First Place?

- They go through trash, looking for unshredded financial papers or mail.
- They steal your wallet.
- They steal your mail.
- They listen in on conversations you have in public.
- They trick you into giving them information over the telephone or by email.
- They buy the information from someone who has stolen it.
- They steal it from a loan or credit application you filled out or from files at a hospital, bank, school or organization where you do business. *(They might look through the dumpsters at these locations as well.)*
- They hack into your computer. Those without computer security programs that install ***firewalls*** are most susceptible.
- They may be a friend, relative or handyman you allow into your home who happens upon a credit statement, or other personal information lying around.
- They complete a change of address form at the post office and redirect your mail.
- They pose as someone who's authorized to obtain your credit report.
- They get access to your personnel records at work.

More and more employees are finding their financial lives devastated by an identity thief who got access to data because he or she worked inside an organization that should be safeguarding your records.

Theft in the Workplace

When you are hired for a new job, there are some important questions you can ask to assess how the company will handle your personal information. Do not feel shy about asking these questions; your safety is important. If the company does not handle employees' information safely, your questions could prompt them to reconsider their current polices and make the necessary changes.

Information acquisition – Do you need the information?

Information storage – What computer security measures have you put into the systems storing personal data? Systems should be established so there isn't common access to your records.

Access to information – Who has access? Does the company do a background check on those who have access to personal information of employees and customers? Do temps have access to secure information? Is there password control over systems?

Disposal of information – Are electric and paper documents containing personal information rendered unreadable prior to disposal?

Distribution of information – How do you handle information? Are Social Security numbers printed on membership cards, or used for email access, etc.?

On a job application they typically ask for your Social Security number. Write “available upon request.” This way, if you are hired you can give them the number, but if you are not, you don’t need to be worried about your job application floating around the office for all to see.

Who Has the Right to Ask for Your Social Security Number?

While any business or agency can ask for your Social Security number (SSN), few can legally demand it. Motor vehicle departments, tax departments and welfare departments can. Social Security numbers are required for transactions involving taxes, which means that banks, brokerage companies, employers, and the like have a legitimate need for your Social Security number. The more prevalent reasons someone asks for your SSN is to get your credit rating and determine whether you pay your bills promptly, or to keep track of you through name and address changes.

Schools, phone companies, insurance companies, health clubs and so on might ask for your Social Security number. The **Social Security Administration** says that there is no law prohibiting a business from asking for your Social Security number, but few people realize they can say no. Chances are good that many companies that routinely ask for Social Security numbers will do business even if you do not provide them with your number. Some just ask for the SSN to open an account, but it is not required. For instance, some companies have procedures that they follow if someone doesn’t want to disclose their SSN. Usually, the customer fills out a questionnaire to determine their payment history and the results of the questionnaire then determine whether the customer needs to pay a deposit to establish service.

Before providing your Social Security number to anyone, first ask if they’ll accept an alternative piece of identification. If not, you can refuse to do business with them. Also keep in mind that, without your cooperation, there is a possibility the business will refuse to provide the product or service you are seeking.

Who Cares Who Sees Your SSN?

The more eyes that see it, the more susceptible you are to identity theft. Social Security numbers are perhaps the most frequently used record-keeping numbers in America. Your Social Security number is used to report your earnings to the **Social Security Administration** and the **Internal Revenue Service**. Your future Social Security benefits are based on your total earnings. The Social Security Administration also uses the Social Security number to pay Supplemental Security Income benefits. This is not a number you want to get into the wrong hands.

Types of Identity Theft

There are countless ways an identity thief can rob you of your identity. Regardless of the method, the results are almost always the same: bankruptcy, a damaged credit rating, and countless hours spent cleaning up the mess left by an identity thief.

Social Security Number – Your Social Security number needs to be guarded very closely. It is the main identifying number for employment, tax reporting and credit history tracking purposes. Ask to use other types of identifiers when possible. A thief could use your Social Security number to obtain employment; open credit card accounts and obtain loans under your name.

Credit Cards – There are many ways thieves can make unauthorized charges on your account, as well as open new accounts in your name. Someone could find a receipt with your credit card number on it, your wallet could be stolen, a thief could steal your mail and find a billing summary, etc.

Internet Scams – Phony emails can appear to come from an Internet provider, asking the customer to verify their password, and then the thief uses the password to get online under the fooled person’s name. Spam email often is used to target unsuspecting consumers and lure them to fake official looking Web sites, such as a billing center for an online service provider or the front page of a mortgage information form. When users enter passwords, Social Security or credit card numbers, the information can be taken, used or sold by identity thieves.

Check Fraud – Your checks have your full name and address, and sometimes your phone number. They also have the full name and address of the bank where the check is drawn, as well as your account number. Perhaps the clerk asks for your driver's license number and writes it on your check. The check passes through the hands of people at the store where you made the purchase as well as the check-clearing house. Then it goes back to the payee bank, and sometimes, depending on the type of account you have, your checks are not included in your statement but go to a company hired to shred them.

Cell Phone – Identity thieves can establish new cellular telephone service in your name using stolen information. They also can make unauthorized calls that seem to come from your phone, so you are billed for these calls.

ATM Skimming – Thieves are attaching skimming devices to ATM machines. The devices take all the account information that is on your card's magnetic stripe, along with the card number and your PIN.

Stolen Purse/Wallet – Someone steals your purse or wallet, or finds one you happen to lose, and uses the information found inside to steal from you.

Identity thieves rob more than 500,000 Americans every year. With increasing technology, this number will continue to rise. The best way to avoid being victimized is to practice these safeguards:

Prevention: Ways to Minimize Your Risk

Protect Your Privacy – Before revealing personal identifying information, ask how it will be used and if it will be shared with others. Ask if you have a choice about the use of your information *(i.e., can you choose to have it kept confidential)*.

Give your Social Security number only when necessary. Do not print your Social Security number on your check or driver's license *(which is optional)*. After applying for a loan, credit card, rental or anything else that requires a credit report, request that your Social Security number on the application be truncated or completely obliterated and your original credit report be shredded before your eyes or returned to you once a decision has been made.

Monitor your **Social Security** activity by ordering your Social Security Earnings and Benefits statement once a year to check for fraud.

ATMs – Shield the keypad when punching in your PIN at an ATM or when placing long distance phone calls with your phone card in order to stop shoulder surfers.

If an ATM doesn't look quite right, do not put your card in it. It is better to be cautious than to ignore the feelings of uneasiness and have your money stolen. Watch for people who may try to eavesdrop and overhear information you give out orally.

Do not write your personal identification number *(PIN)* on your ATM card or on a piece of paper in your wallet. Memorize it.

Credit Cards – Monitor your credit report. Contact one of the three major credit reporting services, Experian, Equifax or TransUnion. There are also private monitoring services that will notify you when someone applies for credit in your name or checks your credit history.

Mind your credit card receipts. It is now becoming more common to list only the last four numbers on the receipt but many still list full account numbers and expiration dates. Put the charge slip copies in a safe place until your credit bill arrives. Match credit card receipts against monthly bills and check financial statements for accuracy.

Cut up old or expired credit cards. Close all inactive credit cards and bank accounts. Even though you do not use them, these accounts appear on your credit report and may be used by thieves.

Checks – The next time you order checks, have only your initials *(instead of first name)* and last name put on them. This way, if someone steals your checkbook, they will not know how you sign your checks, but your bank will. Put your work phone number on your checks instead of your home phone. If you have a post office box, use it instead of your home address.

When you are writing checks to pay for credit card accounts, DO NOT put the complete account number on the *For* line on the check. Just use the last four numbers. The credit card company knows the rest of the number and anyone who might be handling your check as it passes through the processing channels won't have access to it.

Write clearly on all credit applications. Consistently and completely fill in all credit and loan applications using your full name, first, middle and last. Every bill that comes to your house should be addressed exactly the same.

At Home – Watch what you say on a cordless phone or baby monitor. Someone nearby could be listening. Protect your personal information in your home, especially if you have roommates or employ outside help. Talk to your children about what information they can and cannot give over the phone. Crooks can coax a lot of detail out of kids with simple questions.

Invest in a shredder and use it to shred all old bank and credit statements, as well as junk mail credit card offers, before trashing them. Use a crosscut shredder; it is the most effective in destroying documents. This way, identity thieves who go through your garbage hoping to obtain personal information won't find anything.

Minimize the identification information and the number of credit cards you carry to what you actually need. Do not keep your Social Security card in your wallet except when needed.

Copy both sides of your license and your credit cards so you have all the account numbers, expiration dates and phone numbers in the event your wallet and purse is stolen.

Business – Don't pay up-front for a loan or credit. Legitimate lenders won't guarantee loans or credit before you apply, especially if you have bad credit or a bankruptcy. Ask any business you are dealing with to put promises in writing. Go over them carefully before paying money or signing contracts.

Don't ever leave receipts behind—at ATMs, on counters at financial institutions, or at gasoline pumps. Better yet, when using a credit card for gas, when asked if you want a receipt choose no. Crooks can still steal an identity with only the last four numbers of the credit card if the receipt is later lost.

Mail – Take advantage of vacation hold by the post office. Don't depend on your neighbor. Never put your account information on the outside of an envelope or a postcard. Do not put mail to be posted into the mailbox and lift the red flag. This is a gold mine to thieves who look for the red flags because it signals that outgoing mail is inside that mailbox.

If you're moving, contact all your creditors and update them of your new address immediately. You don't want credit information and new credit cards being delivered to the wrong address.

Check expiration dates on credit cards and contact the issuer if you don't get a replacement before they expire. The same goes for monthly financial statements and bills. If your bills do not arrive on time check with creditors and find out why. Do not mail bill payments and checks from your home mailbox. They can be stolen from your mailbox; take them to the post office.

Remove your name from marketing lists; the three credit-reporting bureaus, Equifax, Experian and TransUnion, all maintain marketing lists that may contain your information. Contact the agencies to remove your name from the lists. You also should add your name to the name-deletion lists of the **Direct Marketing Association's** Mail Preference Service and Telephone Preference Service used by banks and other marketers. Removing your name from these lists reduces the number of pre-approved credit offers you receive.

Telephone – Do not tell a telemarketer to *send me more info* because the company can sell your name and address to another organization. Instead, tell the caller to put you on the do-not-call list. If a caller asks, *Is this Mr. /Mrs. So-and-So* do not say, *Yes*. Instead, respond, *Speaking*. Criminals can tape the person saying *yes* and then use it without their knowledge to make purchases. Never give your credit card number or personal information over the phone unless you have initiated the call and trust the business.

You can put your name on the ***Do Not Call*** list to avoid many telephone solicitations at your home. For information about this list, go to the **Federal Trade Commission *Do Not Call*** Web site.

Using a Computer – The FBI says that identity theft has become one of the nation's fastest-growing crimes. Consumers lost $17.8 million due to online fraud last year alone, and the IFCC notes that 70 percent of complainants had email contact with the perpetrators.

Update your virus protection regularly. Don't download files sent to you by strangers or click on hyperlinks from people you don't know. Use a firewall program, especially if you use a high-speed Internet connection like cable, DSL or T-1, which leaves your computer connected to the Internet 24 hours a day. A firewall will stop uninvited guests from stealing personal information.

Review Web site privacy policies. They will tell you how personal information collected will be used. Never input your credit card or other financial account numbers at a Web site unless it offers a secure transaction.

Delete without replying to any suspicious email requests. Don't bother to unsubscribe or ask to be taken off their lists; this only assures the sender that your email account is active.

Use a secure browser—software that encrypts or scrambles information you send over the Internet – to guard the security of your online transactions. Try not to store financial information on your personal computer unless absolutely necessary. If you do, use strong passwords to protect the information. Don't use the automatic login feature. Before disposing of your computer, delete personal information. Use a wipe utility program to overwrite the entire hard drive.

A secure or encrypted transaction will have these two features:

- An icon of a lock appears in the bottom strip of the Web browser's page.
- The URL address for the web page changes from *http* to *htpps* for the page at which you input the personal data.

Choose good passwords. When selecting a password, never tell anyone and do not write it down. Unfortunately, there are automated password-cracking programs, so the rules for choosing a password have become more complicated.

- Pick a password that is easy for you to remember.
- Use at least six characters—with a mixture of numbers, letters and other symbols.
- Do not use your name *(or names of family members, friends, pets, famous people, etc.)*.
- Do not use numbers associated with you *(address, birthday, anniversary, social security number, phone number, etc.)*.
- Change your password at regular intervals.

> ***It usually takes up to 14 months for a victim even to become aware of the crime.***
>
> The Federal Trade Commission

Unfortunately, you can be a victim for days, weeks, even months before you realize you have been victimized. Here are a few of the many warning signs that you may be a victim of identity theft:

- You suddenly are receiving phone calls from a collection agency.
- You are denied a car loan, although you have a decent credit score.
- The motor vehicle department sends you a notice saying your license has been revoked.
- Your credit card company calls to alert you to several unusual purchases that do not fit your spending profile.
- You get bills from a credit card account you never opened.
- A billing cycle passes without your receiving a statement.
- You see charges on your bills you didn't sign up for or authorize.

Once you have determined you are a victim of identity theft YOU MUST ACT QUICKLY!

Clearing your name can take months, even years. Expect frustration, and expect it to take 200 to 250 hours to straighten out the problem. And, it takes several years for it to come off one's credit rating. Everything falls on you to clean up the mess these thieves have made for you.

- File a police report with your local police or the police in the community where the identity theft took place. Keep a copy of the report as evidence.
- Call your bank, credit card companies and other financial institutions and ask for someone in the security or fraud department. Ask them if there has been suspicious activity on your accounts. Then close all suspect accounts.
- Be sure to mention if checks or ATM cards were stolen. Stop payment and also ask check verification companies to notify retailers not to accept those checks.
- If you suspect your mail is being diverted to another address, check with your post office to see whether an authorized change of address form was filed in your name.
- Place a fraud alert on your credit file. This way, new creditors will have to call you before they can approve a new line of credit. Be aware that fraud alerts do expire, so make sure the tag stays on your account.
- Order copies of your credit report from all three credit agencies. You are entitled to a free copy of your credit report if you are a victim of identity theft. Write to any company that has placed incorrect information there.
- File your case with the Federal Trade Commission, the federal agency responsible for collecting identity theft data. The FTC puts all complaints into its database, which is used by law enforcement.
- Remember to keep all evidence. You are building a case to present to creditors, so don't discard anything. Keep detailed records of your conversations and copies of all your correspondence.

Liability

Most of the time, the identity theft victim will not be charged for the purchases made using their stolen information. With an ATM card, if you reported the missing card within two days, your liability is limited to $50. After that, the consumer is responsible for up to $500.

With a credit card, if you report the loss before the card is used, the card issuer cannot hold you responsible for any unauthorized charges. If the thief uses your credit card before you report it missing, the most you will owe for the unauthorized charges is $50 per card. For more information about liability issues, check www.ftc.gov/bcp/conline/pubs/credit/atmcard.htm

A Few Comforting Words and Time-Saving Suggestions

Generally speaking, federal law says you, the victim of credit or banking fraud, is liable for only the first $50 of your losses if you notify financial institutions within two days of learning of the loss, and many financial institutions will waive even that amount.

Remember, if you're a victim of identity fraud or if you have been denied credit, insurance or employment because of something on your credit report, you're entitled to a free credit report.

Don't pay any bills that are not yours, even if you think it's going to make your life easier. It's as if you're admitting the bill is yours.

Even though your Social Security number may have been used by the identity thief, don't change it. That will only make you look more suspicious to future creditors. Your new numbers will be attached to your credit report along with the old numbers and that may cause delays in obtaining new credit.

If your driver's license number is being used by an impersonator, you should get a new license and cancel the old one. Don't cancel your driver's license number until the department of motor vehicles verifies that a new card with your name and number was issued to an impostor at a different address.

If collection companies continue to harass you after you have written letters explaining the circumstances of the fraud, inform them that they're violating the law and keep documentation so you may take legal action if they persist. The fact that you know your rights and will defend them will often be enough to make them back away.

What you find out may make you upset, angry and frightened. Such feelings are normal. You will be able to resolve the problems if you prioritize and get organized. It also may be helpful to join a network of other victims.

Words from an Identity Theft Victim
Mari J. Frank, an attorney, privacy consultant and author of the *Identity Theft Survival Kit*

Take Action to Prevent Identity Theft

Assess

- Take an inventory of important papers and pieces of identification that include your Social Security number or other personal information you may want to keep private.
- Make copies of the front and back of your driver's license, credit cards and other identification you keep in your wallet or purse or might somehow lose.
- Take a good look at behaviors that may increase your risk of becoming a victim: how you use personal financial information, how you respond to phone, email or written requests for information, and who you share information with.
- Pay attention to your billing cycles. Follow up with creditors if your bills don't arrive on time. A missing credit card bill could mean an identity thief has taken over your credit account and changed your billing address to cover his tracks.

Adjust

- Make a plan to regularly change your bank account, computer and other passwords you use to access financial information.
- Discipline yourself to get more information about how, where and when you share personal information.

Identity Theft

Protect

- Before you reveal any personal identifying information, find out how it will be used and whether it will be shared with others. Ask if you have a choice about the use of your information. Will they keep it confidential?
- Put passwords on your credit card, bank and phone accounts. Avoid using easily available information like your mother's maiden name, your birth date, the last four digits of your SSN, your phone number, or a series of consecutive numbers.

Want to Know More About Identity Theft?

New Hampshire Attorney General, Consumer Protection Bureau
603-271-3641, 33 Capitol Street, Concord, NH 03301, www.doj.nh.gov/consumer/brochures.html

U.S. Secret Service, www.secretservice.gov

Federal Trade Commission, www.ftc.gov or www.consumer.gov/idtheft
Do Not Call Registry, www.ftc.gov/donotcall
A report was just issued on Identity Theft. http://www.consumer.gov/sentinel/pubs/Top10Fraud2003.pdf

U.S. Postal Inspector Service, www.usps.com/postalinspectors

Social Security Fraud Hotline
P.O. Box 17768, Baltimore, MD 21235, 1-800-269-0271 www.ssa.gov

Better Business Bureau *(directory of local BBB agencies)*, www.bbb.org

Privacy Rights Clearinghouse
Consumer Hotline: (619) 298-3396, www.privacyrights.org 1-800-282-0515

Equifax Credit Information Services Inc.
P.O. Box 740241, Atlanta, GA 30374
Information: 800-685-1111, Fraud: 888-766-0008

Experion
P.O. Box 2104, Allen, TX 75013-2104
Information: 888-524-3606, Fraud: 888-397-3742

Trans Union LLC
Consumer Disclosure Center, P.O. Box 1000, Chester PA 19022
Information: 800-888-4213, Fraud: 800-680-7289

Direct Marketing Association
Mail Preference Service and Telephone Preference Service, www.the-dma.org

Federal Bureau of Investigation and National White-Collar Crime Center
Internet Fraud Complaint Center, www.ifccfbi.gov/index.asp

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Kids & Money

All parents want their children to make good decisions about how they spend their own and their parents' money. Kids, on the other hand, sometimes don't worry very much about where their money comes from or where it goes. There are many things you can do to help your children better understand the choices they will make about spending and saving money. One of the first problems to overcome is what a lot of kids think about money. Have you ever heard your child say one of the following?

- Money grows on trees.
- It didn't cost anything; my Mom paid for it.
- If you don't have any money, you can just use a credit card.
- It's my parents' job to buy me the things I want.
- All you have to do is go to the ATM.

Clarify how you think and talk about money in your family. Helping your child to understand the role of money begins at home, with you and other members of your family.

Children of just about any age can learn to make better decisions about spending and saving and they can be a part of important family decisions about money. You can help them better understand their choices and the real costs of their decisions. Children can start now to build a savings plan for the things they want today, next year, and in the future.

- You can help your child assess her own spending and saving decisions.
- You can help your child assess the need for planning for her education and well-being.
- You can help your child protect her financial future by helping her establish good financial behaviors now.

Kelly
35 Years Old
Married to Bill (38)
Two Children Mary (13) and Jimmy (11)
Salem

Kids & Money Case Study

Kelly and Bill seem to be doing pretty well these days. Bill's business is thriving. Kelly returned to teaching five years ago when Jimmy started school. As a two-income family, they are able to budget and buy most of what they and their children both need and want.

However, as Mary and Jimmy get older, they are always asking for new things. Kelly laments, *They seem to think they can have anything they want. At the mall or on vacation it's, I want this and I want that.*

The kids receive an allowance, but Bill thinks they spend the money the same day that they get it. The system that Bill and Kelly grew up with—figuring an allowance based on $1 per week for each year of a child's age—doesn't seem to be enough money anymore.

After reading about the rising cost of college, Kelly and Bill started talking about how they can help Mary and Jimmy to plan and save for their futures. The couple are confused about where to start and what would be reasonable to expect of their children. Should they force their children to save money or is there another way? What about those monetary gifts from their grandparents? Mary will begin babysitting for the neighbors soon and will be earning a little of her own money. How should she handle her earnings?

This case study will examine how parents Kelly and Bill can begin helping Mary and Jimmy to make good decisions about spending and saving their money.

Kelly's Monthly Budget

INCOME	
Kelly's Salary	$ 2,995
Bill's Salary	$ 4,192
Interest	$ 55
Monthly Total	$ 7,242

REGULAR CASH EXPENSES	
Groceries/Household	$ 585
Dining Out	$ 220
Entertainment	$ 175
Dry Cleaning	$ 36
Gasoline/Car Expenses	$ 140
Personal Care/Hair	$ 50
Contributions	$ 125
Prescriptions/Co-Pay	$ 52
Clothing	$ 250
Monthly Total	$ 1,633

CREDIT/DEBT PAYMENTS	
Credit Cards	$ 175
Car Loan	$ 360
Home Improvement Loan	$ 275
Monthly Total	$ 810

SALARY WITHHOLDINGS	
Federal Income Tax	$ 658
Social Security/Medicare	$ 534
Health Insurance	$ 160
Life Insurance	$ 15
Disability Insurance	$ 32
Professional Association Dues	$ 28
403(b) Contribution Kelly	$ 200
401(k) Contribution Bill	$ 410
Monthly Total	$ 2,037

MONTHLY BILLS	
Mortgage/Tax/Insurance	$ 1,347
Utilities/Water	$ 210
Telephone/Cell Phone	$ 85
Cable/Internet	$ 49
Auto Insurance	$ 110
Music/Sports Lessons	$ 146
Memberships	$ 35
Newspaper	$ 16
Monthly Total	$ 1,998

SAVINGS FOR ANNUAL EXPENSES	
Car Repairs	$ 75
Emergency Fund	$ 100
Home Maintenance	$ 110
Vacation	$ 200
Gifts/Holidays	$ 125
College Fund	$ 150
Monthly Total	$ 760

Kelly's Family Worth

ASSETS	
Home	$ 135,000
Kelly's Car	$ 12,300
Bill's Car	$ 26,000
Kelly's 403(b)	$ 18,000
Bill's 401(k)	$ 47,400
College Fund	$ 12,000
Total Assets	**$ 250,700**

LIABILITIES	
Mortgage	$ 67,000
VISA Card Balance	$ 2,400
Car Loan	$ 9,200
Home Improvement Loan	$ 8,600
Total Liabilities	**$ 87,200**
Net Worth	**$ 163,500**

Kelly and Bill want to figure out a better system for allowances for their two children. They don't know the appropriate amount to pay each week. Also, Mary and Jimmy don't know what they are expected to pay for with their allowance money. Kelly and Bill decide to sit down with the children to put together a weekly spending plan. The amount of allowance for each child will be based on their spending plan.

	Mary	Jimmy	Comments
After-school treats	$ 2.00	$ 2.00	
Movies, entertainment	$ 3.00	$ 2.00	
School lunches	$ 7.00		Mary can pack her lunch or buy it at school. She can keep what she doesn't spend. Jimmy takes his lunch every day.
Miscellaneous	$ 2.00	$ 1.00	
Savings	$ 3.00	$ 3.00	Mary is saving for a CD player; Jimmy is saving for a new video game.
Gifts	$ 1.50	$1.00	
Charitable	$ 1.50	$1.00	
Total	$20.00	$10.00	

After several months, the system is working so well that Kelly and Bill decide to give Mary a clothes budget. The three of them sit down and put together an annual clothes budget. Mary will get one-fourth of the budgeted amount every three months. She may keep what she doesn't spend, but if she spends all the money and wants more clothes, she'll have to supplement with gifts from the family or her own earnings.

Mary	
Shirts (4)	$ 60
Skirts (3)	$ 72
Pants/Jeans (3)	$ 68
Shoes (2)	$ 65
Ski jacket (1)	$ 55
Sweaters (2)	$ 20
Underwear, misc.	$ 40
Total for Year	**$ 380**
Quarterly Amount	**$ 95**

The Grasshopper & the Ant

Once there were two friends, a grasshopper and an ant. They liked most of the same things—the same food, the same ways to have fun, and good places to hide from larger animals. But, they did have one very big difference of opinion.

One day, the grasshopper and the ant met at the corner. The ant was on his way to the bank ATM to deposit a shiny quarter he had earned. He saved one quarter each week so that he could have money for an emergency or for something big he wanted in the future.

"Hi, grasshopper!" he said. "What are you doing?" The grasshopper replied, "I'm on my way to the video arcade to spend this quarter I just earned. Boy, am I going to have some fun when I put my quarter in the slot of the video game machine."

The grasshopper then asked the ant, "What are you doing?" The ant said, "I'm on my way to save my quarter at the bank ATM."

"Gosh," said the grasshopper, "you don't seem to have as much fun when you save your money. Why don't you just buy the things you want now?"

The ant thought for a while and said to the grasshopper, "When I save, I know that I will have some money if I need it in the future. What will you do if you need money in the future?"

With that, they parted and each went down a different road.

Some time later, the ant was again on his way to the bank ATM. This time, he was going to take out some money to buy food. There had been terrible storms and very cold weather. There was no food in the fields.

The ant saw the grasshopper looking very thin and tired. “What’s up?” he asked.

In a feeble voice, the grasshopper told him that he had not eaten for days and didn’t have any money to buy food. “I guess I should have saved something for the future,” he said.

The ant then gave the grasshopper some good advice. “If you do nothing but play today, you may have nothing for tomorrow.”

My Wants

Short-Term	Medium-Term	Long-Term
Time: Today	Time:	Time:

Kids & Money: A Primer

Children learn from their parents and other adults in their lives about language, culture, personal attitudes, and daily behaviors. Financial understanding is taught and constantly reinforced in the home. When you spend money, your children learn how to spend. When you argue about money, it can become something negative in your children’s lives. When parents are not careful about their use of credit and debt, children may get the wrong message. If parents do not put a positive value on saving, kids will follow their lead. If you do not help your children make reasoned decisions about spending and saving, where will your children learn those skills?

Children are much more perceptive than many adults think, especially about money. They see their parents’ and other adults’ financial behaviors. Children learn spending, saving, investment and planning behaviors every day. These *lessons* happen in grocery stores, the mall, at the bank, ATM and rarely in planned discussions between parents and children. The first thing you can do to make sure the right lessons are learned is to plan the lessons. Following are some suggestions about how you can help your children better understand money and financial decisions.

Ask Yourself

- Can my children make good decisions about spending and saving?
- Will my children be prepared for future decisions?
- How can I help my children prepare for the costs of their lives, such as an education, a car, an apartment, or clothing?

Uncertain Economic Times

Not long ago, personal bankruptcies reached an all-time record. People of all income levels spent more than they earned or were able to repay. Credit cards with lower interest rates made it easier to spend. Low home mortgage rates, refinancing and moving up to larger homes made many people feel *wealthier*. That was the boom of the 1990s!

In the early 2000s, financial futures became more uncertain. Following the longest period of sustained economic growth in our nation's history, unemployment began to climb, consumer confidence reached a new low, and many individuals who had not worried about their income and lifestyle previously began worrying. The retreat of stock market prices, terrorism, and an expanded war contributed to uncertainty. The behaviors that seemed to make so much sense in good economic times no longer made sense.

In the coming years, the economy may be better than it has been for the past few years, but it also may be worse. In either case, there are lessons to be learned about spending, saving and financial decision-making. You can help your children be more aware of their choices about spending and saving. You can give them some simple tools to help them be successful consumers and savers. You can better prepare your children to see their financial futures in a positive light and feel more in control of their lives.

Money Doesn't Grow on Trees

Every day, millions of children go to school with millions of dollars in their pockets and purses. They make countless spending decisions to satisfy their many wants. In addition to their personal decisions, girls also play an important role in family spending decisions. Practicing consumer decision-making with parents or in school classrooms, aided by economic knowledge, will help girls understand the benefits of making more informed spending decisions.

One way to help your children understand the number and importance of her spending decisions is to keep a *spending diary*.

Children may think that parents will always have the money to buy the things they want. Sometimes, it isn't the lack of money that causes parents to say *no*. Sometimes parents say no because they know there are limits to what can be spent when staying within a budget.

Keep a Spending Diary

- Keep a family *(or each individual)* spending diary for a week. Give each family member a small notebook to keep track of all money spent for one week—for everything, no matter how small.
- At the end of the week, review the lists. For each item, ask the children *(and adults)* to identify something else they could have purchased with the same amount of money. These are the ***opportunity costs*** of their individual decisions.
- Identify from the individual lists the items that were purchased that someone could have done without. Add up that total amount of money. Ask the children to think of what they could now purchase with the money spent on unnecessary things.
- Multiply the amount spent on necessary things by 26. This will equal the total amount the family would have saved after one year if everyone didn't buy things half of the time for a year. What could the family buy with the amount they saved? Talk about how children can decide what they really want and save for it if they don't buy everything they want all the time.

This will help children realize how much they spend and the real costs of their individual decisions. It may begin an understanding of the long-term goal of saving—what they can spend in the future if they forgo a few small purchases each week.

The key to good spending decisions is a simple economic concept called **opportunity cost.** The opportunity cost of a decision is the value of the next best alternative. It is the value of what you really give up when you make a choice among alternatives. If you can buy an apple or an orange and you choose the orange, what you give up, your opportunity cost, is the apple. If you can spend two hours studying for a math test or playing video games and you choose to play video games, your opportunity cost is the value of the two hours of extra studying for the test. If the additional two hours of study would have raised your grade from a C to a B, your opportunity cost was the possible B grade.

If you know the real cost—what you really give up—when you make a decision, you will probably make better decisions. The tough part often is determining the real value of the alternatives. Will that extra two hours of studying really make it probable to raise your grade?

Talk to your children about the real costs of their spending decisions. They won't always agree with what you choose, but they will feel more in control of the decisions.

Saving Is a Way to Have the Things You Want in the Future

Saving is tough. It means that you are not able to get as many of the things you want today. You might be able to get more of the things you want in the future, but the future is abstract, especially for young children. Children have to realize, as do adults, that saving is a tool to increase their total satisfaction over time. A teenager might have an incentive to save for a car or for college. An adult might easily see the advantage of saving for a mortgage down payment, for that once-in-a-lifetime vacation or for retirement. But, young children don't see very far past tomorrow. You can use their almost infinite wants to help them understand saving.

At the point where a child receives his or her own money, have a conversation about things to do with it. Whether it is an allowance or a gift, help connect the money with the opportunity to make a decision. Try reading a slightly different version of an old fable, and discuss it with your children. See the Worksheet for the whole story.

Saving for Short-Term and Long-Term Goals

There are differences and possible conflicts between short-term and long-term financial goals. Use the *Short-Term and Long-Term Goals* Activity Page at the end of this section to help your children think about their current and future wants and reasons to save.

- Discuss the ideas of today and the future. Talk about the things that your child wants today *(a toy, a video game or the newest basketball shoes)*. Make a list of those things in the first column *(Short-Term)*.
- Talk about things that your child might want in six months or in a year or two *(a big vacation, a better bicycle, or a car)*. Make a list of those things in the second column *(Medium-Term)*.
- Talk about wants that are far in the future—five to ten years from now *(a car, college expenses, or a first apartment)*. The longer you can project into the future, the better *(a house down payment or retirement)*. Make a list of those things in the third column *(Long-Term)*.
- Compare the lists. You can generalize that the items in the *Short-Term* column are things that are less expensive and will not last long, the items in the *Medium-Term* column typically cost more and last longer, and the items in the *Long-Term* column are even more expensive, but typically last or have a benefit for a much longer time.
- Ask if there are things in the first column that the child would give up to have the items in the second or third column? Link these future wants to saving.
- Pick one item from the *Medium-Term* column. Estimate a price for that item. Establish the number of months until the child will want to have or use that item. Divide the price by the number of months to show the amount per month that must be saved to be able to purchase that item.

Bicycle cost:	$ 100
Number of months:	9
$100 divided by 9:	$11.11

- Talk about ways to save $11 per month for nine months. Discuss ways to earn extra money and ways to save the money so that stays safe and will earn interest.
- The child can write a plan to save for a goal. Post the plan where he or she will see it regularly.
- Help your child open a savings account. Many banks, savings and loans, or credit unions will open an account for a minor with a small initial deposit. Make sure the account pays interest and has no fees. If possible, provide an incentive by depositing the first $11 or offering to match your child's savings each month.

Giving an Allowance

An allowance can be a great learning tool for a child. It can help teach responsibility for managing money and is a tool for developing decision-making skills. Each expert has different advice for parents to answer questions about allowances, but there are some general areas of agreement.

Kids' Money* surveyed parents about allowances and identified the key factors influencing their allowance decisions. The most important were age, behavior and need.

*Source: *Kids' Allowances: How Much, How Often and How Come, Kids' Money, 2000*

What Age?

One good way to start thinking about allowance at an early age is to begin putting away a small amount each week when your child is born. This puts the allowance into the family budget. It also is a great way to begin a long-term savings plan for college. Starting early is the best advice!

Generally, children should begin receiving an allowance when they begin asking for things at the store. If your child asks for a toy or a special treat at the store, it can be linked to her allowance. You may want to ask your child to take some of her money on a shopping trip. When you hear, Can I have...? it is a teachable moment for you and your child. Some extra money can be given to the child when appropriate for spending decisions—at the grocery store, at the park, or on a trip. The difficulty will be helping your child to control impulse buying. Many children seem to want everything, especially the first thing they see that they like.

How Much?

As children get older, their allowance needs to change as their spending increases. One common rule is that a child should receive fifty cents or one dollar per week for each year of their age, depending on what expenses the child and parents agree are to be paid with the allowance. This can be included with school lunch payments, but it might be better to separate the expenses from the discretionary money to give your child some control over a certain amount of money.

Of course, the amount of allowance is always determined by the parents' ability to provide it. To begin teaching financial skills, any regular amount will do. If the family budget allows, additional amounts for charity or saving can be built into the child's allowance.

What are the Rules?

What can children buy with their allowance? Do they have to save part of it, or is it theirs to use as they wish? Be sure to help your child understand the difference between their required *(fixed)* expenses and other things they may want to purchase.

If money for lunch or a regular expense is included, it should be clear and separated in the budget or the child's thinking. A little money for purely personal purchases *(candy, toys and video games)* also should be included, but strictly budgeted. If you expect your child to save a portion of the allowance or give a portion to charity or a religious organization, that should be made clear.

Many parents tie their children's behavior to their allowance. Some expect minimal household chores, a clean room or some specific task to be completed. The relationship between the allowance amount and these jobs can increase with age. It is important to make the rules clear. Extra jobs should provide extra payments.

What if your child misbehaves? Should her allowance be tied to acceptable behavior or good grades? Parents seem to have many different ideas about these questions. It is important to make expectations known. When your child is older, a *contract* might be helpful. In any case, an agreement between parent and child provides a base for understanding the rules and developing good decision-making skills.

Kids and Jobs

Some teenagers have to work to earn money; others want to work to buy the things they want. A job can be a great learning experience and provide extra family income. It is up to you as a parent to decide when, where and how. It is important to make the rules very clear. The job and, quite often, transportation to the job, is something you can control if you take the time and interest.

- How much time for work?
- Any conflicts with school work?
- How will the money be spent?
- How much should be saved?

The following is a very brief summary of New Hampshire laws concerning the employment of minors. For more information, you can go to the New Hampshire Department of Labor Web page. A youth in New Hampshire is defined as any person under 18 years of age.

Record Requirements

Every employer must post in a conspicuous place in every room where youths are employed a printed notice stating the hours of work, the time allowed for dinner or other meals, and the maximum number of hours any youth is permitted to work in any one day.

NH Youth Employment Certificate

Certificates of employment are issued by Principals of schools or persons authorized by Principals *only after the determination of a satisfactory level of academic performance by the student*. The responsibility for supervision and coordination of the program between the school system and the NH Department of Labor is the Superintendents of Schools. If a student does not continue to meet a satisfactory level of academic performance after the issuance of the certificate, the Principal of school or another person authorized by the Principal may revoke the certificate. A student's employer must obtain certificates within 3 business days of the first day of employment. Copies of certificates must be kept on file by all employers of youths.

Prohibited Occupations. Certain occupations are considered hazardous to minors, and minors are prohibited from working in those occupations.

Saving for Your Child's Education

One of the big challenges facing parents is how to best provide for your child's future education. Planning early can be helpful, as college costs have steadily increased over the years. Many of the same investment options used to save for large purchases can be used to save for a college education. As with all savings and investment options, each has costs and benefits.

Here are a few ideas to get you started.

- Saving for a child's college education should not conflict with saving for your retirement. Your child may have other options. When you retire, your options are fewer.
- Start early, no matter how little you can save. The ***Rule of 72*** tells us that your savings will double in some number of years, depending on the interest rate. To calculate how soon your money will double, divide your return into the number 72. For example, *if you expect to receive 8% interest, 72 divided by 8 is 9. Your savings principal will double in 9 years, so a $5,000 investment will be worth $10,000. If you invest $100 per month for 18 years, you will have $48,000.*
- In the early years, you can be more aggressive in your investments. A greater investment in stocks may bring a greater return. As your child comes closer to graduation, you may want to be more conservative. Investing in mutual funds gives you the advantages of diversification and professional management.
- A number of programs are available to supplement your savings. Federal and state programs and private grants and loans can be the difference between your savings and college costs.
- A "529" savings plan is a good way to save for college and take advantage of New Hampshire and federal tax breaks. The federal tax incentive became effective January 1, 2002. Under current law, money you put in a 529 plan can be withdrawn tax free for college expenses. You can put money into the tax-free fund and use it for a variety of educational expenses. The New Hampshire 529 plan, the ***Unique College Investing Plan***, is sponsored by Fidelity Investments.
- The ***Hope Credit*** and ***Lifetime Learning Credit*** can help offset college costs and are additional ways to save for higher education by utilizing federal income tax credits.
- Lenders often are more flexible with educational loans in terms of eligibility and repayment. Many financial institutions have special programs. Shop around.
- Interest payments on educational loans may be deductible if your annual adjusted gross income is below $65,000 *($130,000 if you are married and filing jointly)*. The maximum interest deduction on educational loans is $2,500 per year.
- If a family does not take advantage of education credits, they may qualify for the tuition and fees deduction, which has certain limits depending on your income level.

Average Annual College Costs
For students entering college in Fall, 2003

New Hampshire 2-year community college *(Associate Degree)*	$ 4,686 tuition and fees *(NH average)*
New Hampshire public 4-year university *(Bachelor's Degree)*	$ 6,369 tuition and fees *(NH average)* plus, $5,991 room and board
New Hampshire private 4-year university *(Bachelor's Degree)*	$ 17,706 tuition and fees *(NH average)* plus, $7,236 room and board

Source: New Hampshire Postsecondary Education Commission

529 College Savings Plans

A 529 Plan is a state sponsored investment program designed to ease the burden of paying for college by providing a federal tax break. Your money grows tax deferred in the 529 Plan and can be withdrawn tax free for qualified education expenses. That means you'll owe no federal income tax, and in most cases no state tax on withdrawals as long as you use the money to pay the beneficiary's college bill, including tuition, books, and most room and board.* Graduate, professional and technical school expenses also qualify. There are also certain preferential gift tax provisions related to contributions to a 529 Plan account.

**(Earnings are federal tax-free. Withdrawals made for college expenses are tax free when no other education tax incentive is used. The law allowing tax-free withdrawals expires December 31, 2010; if the law is not renewed, earnings will be taxed at the child's tax rate when withdrawn.)*

The state of New Hampshire sponsors a 529 Plan known as the ***UNIQUE College Investing Plan***. It is administered by Fidelity Investments, one of the largest mutual fund companies in the country.

Important Tax Tip

State law permits you to take advantage of any qualified 529 Plan and still allow your money to grow exempt from the state of New Hampshire's interest and dividends tax so long as you use the funds for qualified higher education expenses.

The UNIQUE College Investing Plan...

- Can be used at any college in the country.
- Earnings are tax-free. Withdrawals made for college expenses are tax-free when no other education tax incentive is used. The law allowing tax-free withdrawals expires December 31, 2010; if the law is not renewed, earnings will be taxed at the child's tax rate when withdrawn.
- Has 11 investment options into which you can direct your contributions.
- Allows families to make smaller contributions, usually a $50 minimum.
- Gives you control over your account and flexibility. If your child decides not to attend college, you can defer use of the account, change beneficiaries, or withdraw the funds. You may change your investment options once each calendar year.

Anyone can open an UNIQUE account. This includes parents, grandparents or through a trust. More than one family member may choose to open an account for the same beneficiary. The maximum contribution limit for a single beneficiary as of January 2004 is $270,000.

If the beneficiary decides not to go to college, you may change beneficiaries to another family member or even yourself, leave the contributions invested in the account, or withdraw the assets subject to taxes and an additional 10% federal penalty on earnings.

Investments in your UNIQUE College Investing Plan account can be used at any eligible educational institution in the country to pay for qualified higher education expenses. To be so designated, the institution must be eligible to participate in the U.S. Department of Education student aid programs. Qualified higher education expenses are tuition, fees, books, supplies and equipment required for enrollment. Room and board expenses are eligible but subject to limits.

The UNIQUE College Investing Plan is market-based and invests in portfolios of various Fidelity mutual funds *(three static portfolios and eight "age based" options)*. This allows you to take advantage of Fidelity's professional money management and participate in the potential growth of the stock and bond markets with correspondingly higher risk. Neither principal nor earnings are guaranteed by the state of New Hampshire.

The *static* portfolios maintain their allocation of stocks, bonds and money markets on a constant basis. The *age based* portfolios, in contrast, automatically adjust their allocation of stocks, bonds and money markets, gradually becoming more conservatively invested as the future student gets closer to college age.

You can open a 529 account directly with Fidelity Investments by downloading an application at Fidelity.com/college or calling (1-800-544-1722).

Prepaid College Plans

Some states, other than New Hampshire, also offer prepaid tuition plans. These plans allow you to purchase tuition, and sometimes room and board, at today's prices for use in the future at participating institutions.

Coverdell Education Savings Account *(formerly the Education IRA)*

Another college savings option, the Coverdell Education Savings Account, allows tax-free withdrawals if the money is used for college, private elementary or high school tuition, or other educational expenses. Contributions were limited to $2,000 per beneficiary in 2003, and withdrawals are tax-free. To qualify, your adjusted gross income must be less than $110,000 if you are single, or $220,000 if you are married and filing jointly. Your annual contributions are limited to $2,000. You can set up a Coverdell Education Savings Account with a no-load mutual fund company, or through a bank, stockbroker or financial planner.

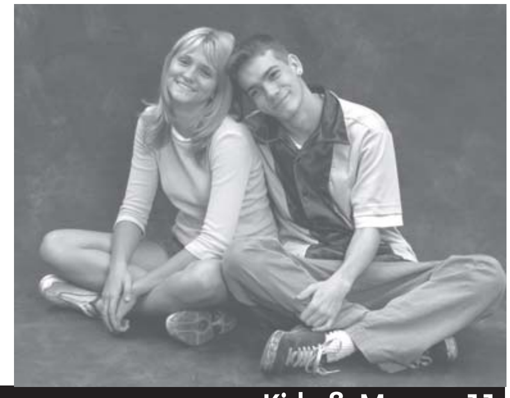
Grants and Loans

Important Note: For complete information about education loan programs, talk to your high school's college counselor.

In 2001, federal government, state, individual school and private lender programs offered $74 billion in assistance, including $39 billion in loans, to college students. The key factors considered for eligibility are income; other non-retirement savings, the size of your family and your children's assets.

There are several sources of financial aid for college.

- Federal **Pell Grants**, primarily for low-income families, which offer a maximum of $4,050 per student for the 2004-2005 academic year, based on need.
- The federal **Supplemental Educational Opportunity Grant** program is administered by colleges and offers assistance ranging from $100 to $4,000 per student per year.
- The federal **Work-Study** program provides students with part-time jobs to meet the family's financial need. Often, eligibility for grant assistance requires participation in the work-study program.
- **Educational loans** are available in two basic types: need-based, which helps families who can't afford college costs, and non-need-based, designed to fill a gap when the family doesn't have available cash but may have other assets. Loans comprise the majority of all financial aid for college expenses.
- Low-interest **Perkins loans** of up to $4,000 annually are made directly to the student. Parents are not required to co-sign on this loan. Repayment begins nine months after graduation, leaving college or falling below half-time student status. Repayment can be spread over 10 years.
- The interest rate for a **Stafford loan** is variable but has a limit of 8.25%. The current rate *(through June 30, 2004)* is 3.42%. The Stafford is non-need-based and most students who apply for aid are eligible. Interest accrues immediately but payment may be postponed until after graduation. Loan amounts are limited to $2,625 for first-year students, $3,500 for second-year students and then $5,500 annually for full-time students.



- A **PLUS loan** *(Parent Loans for Undergraduate Students)* is non-need aid-based and is made to parents, not students. Parents can borrow up to the annual cost of attending college, minus the amount of any other financial aid the student receives. The interest rate varies but it is capped at 9%. Repayment begins in 60 days, but can be spread over 10 years.
- **Private loan options** such as bank lines of credit, home-equity loans, Signature Student loans and Excel loans are also available, but the interest rate usually is higher and repayment may start immediately.

You can use a calculator on the College Board website to estimate how much financial aid your child will be eligible to receive, based on your income and assets. Just click on the Pay for College tab and then on Calculator under Tools.

When your children are young...

- Start early! Remember the ***Rule of 72***, the doubling time of savings.
- Don't neglect your retirement planning to save for your children's education.
- Early on, you can be more aggressive and tolerate a little more risk.
- Consider the short-term and long-term tax consequences of your investment choices.
- Set a savings goal based on an estimated cost of four years in college.

As your children get close to high school graduation...

- Move your college savings funds to less risky investment vehicles.
- Talk to your child's high school counselor about college financing options.
- Investigate the various scholarship, grant and loan options available to you.
- Contact the financial aid office at the college to explore opportunities.
- Be prepared and organize your financial records for the application process.

Source: "The SmartStudent Guide to Financial Aid," FinAid, Page LLC, 2003

Tax Breaks for Educational Expenses

The **Hope Scholarship** provides a $1,500 tax credit per student per year for higher education expenses during the first two years of post-secondary education. The credit is 100% of the first $1,000 of qualified tuition and related expenses per student, and 50% of the second $1,000 of qualified tuition and related expenses. The expenses must be paid by the taxpayer, and the taxpayer must list the student as an exemption on her/his income tax return.

The **Lifetime Learning Tax Credit** provides a tax credit of up to $2,000 per taxpayer for education expenses. The amount of the credit is equal to 20% of the first $10,000 of qualified tuition and related expenses paid by the taxpayer. Expenses paid for a junior or senior in college; for graduate and professional schools; and for non-degree, job-related courses are eligible for the credit.

To qualify for the Hope or Lifetime Learning credit, your adjusted gross income must not be higher than $102,000 *(married filing jointly)* or $51,000 *(single or head of household)*.

For more information about tax credits for educational expenses, you can go to the U.S. Department of Education Web page or the Internal Revenue Service Web page.

Your Child's Age is Important

The age of the child is a major consideration in deciding how to invest college funds. With college costs rising faster than inflation, corporate stocks or mutual funds may be the best option to help fund your education-savings portfolio. Bonds and cash investments will be better options as your child nears college age.

Kids & Money: A Primer

- **Under Age 8.** Most planners recommend that you base your asset allocation on your child's age. If your child is 8 or younger, you can keep 60% to 95% of your money in stocks or you can choose a balanced fund, which holds a prescribed ratio, usually 60/40, of stocks to bonds.

- **Age 9-13.** When your child is between ages 9 and 13, you should begin to make your portfolio a little more conservative by putting more of your contributions into bond funds and less-aggressive stocks.

- **Age 14-Graduation.** Begin to protect the assets you have accumulated so far. You can do this by reallocating 20% to 30% of your assets into money market and short-term bond funds. Upon graduation, you may need faster access to your funds. Most of your college fund should be in safe investments such as money market funds when your child enters college.

Looking for More Information About Kids and Money?

U.S. Department of Education www.ed.gov/inits/hope

Federal Citizen Information Center *First Gov for Kids,* www.kids.gov/k_money.htm

Internal Revenue Service *Applying for Financial Aid?* www.irs.gov/pub/irs-pdf/p1577.pdf

FinAid Page LLC *The SmartStudent Guide to Financial Aid,* 2003. www.finaid.org

College Board for financial aid and scholarship information www.collegeboard.comwww.collegeboard.com

Investment Websites for Kids www.younginvestor.com and www.themint.org

Fidelity Investments www.fidelity.com

New Hampshire Higher Education Assistance Foundation (NHHEAF) Network,
PO Box 2097, Concord, NH 03302-2097; 800.719.0708; www.nhheaf.org/resource_center.htm

New Hampshire Department of Labor
95 Pleasant Street, Concord, NH 03301
603.271.3176 or 1.800.272.4353; www.labor.state.nh.us/youth_employment.asp

University of New Hampshire, Cooperative Extension, Publication Center
16 Nesmith Hall, 131 Main Street, Durham, NH 03824 (603) 862-2346 or
http://ceinfo.unh.edu/Family/Documents/monymang.htm#CH_Tee
A Prime Reality: Credit Decisions and You
High School Financial Planning Program
Let's Talk About Money for 8 and 9 Year Olds

NH Jump$tart Coalition for Personal Financial Literacy: Financial Smarts for Students
1465 Hooksett Road No. 126, Hooksett, NH 03106, 603-731-1812, 603-584-0203 or
http://www.nhjumpstart.org/

Helpful Books About Money for Parents and Children

Dr. Tightwad's Money-Smart Kids
by Janet Bodnar
(Kiplinger, 1997)

Growing Money: A Complete (And Completely Updated) Investing Guide for Kids
by Gail Karlitz, Debbie Honig, Stephen Lewis *(Illustrator)*
(Price Stern Sloan Publishers, 2001)

Money Doesn't Grow on Trees: A Parent's Guide to Raising Financially Responsible Children
by Neale S. Godfrey, Carolina Edwards
(Fireside 1994)

Neale S. Godfrey's Ultimate Kids' Money Book
by Neale S. Godfrey, Randy Verougstraete *(Illustrator)*
(Aladdin Library, 2002)

Rich Dad, Poor Dad: What the Rich Teach Their Kids About Money—That the Poor and Middle Class Do Not!
by Robert T. Kiyosaki, Sharon L. Lechter
(Warner Books, 2000)

The Totally Awesome Money Book for Kids, Second Edition
by Adriane G. Berg, Arthur Berg Bochner
(Newmarket Press, 2002)

Kids' Allowances—How Much, How Often & How Come, A Guide for Parents
(includes Allowance Workbook)
by David McCurrach
(Kids' Money Press, 2000)

Money Sense for Kids!
by Hollis Page Harman
(Barrons Juveniles, 1999)

Kids and Money: Giving Them Savvy to Succeed Financially
(Bloomberg Personal Bookshelf)
by Jayne A. Pearl
(Bloomberg Press, 1999)

The Kids' Allowance Book
by Amy Nathan, Debbie Palen *(Illustrator)*
(Walker & Company, 1998)

Kids, Parents & Money: Teaching Personal Finance from Piggy Bank to Prom
by Willard Stawski *(Author)*, William S. Stawski
(John Wiley & Sons, 2000)

New Hampshire Women & Money Conference

Jointly presented by the
New Hampshire Commission on the Status of Women
and the New Hampshire State Treasurer